EUROPE'S BUSINESS NEWSPAPER
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Monday February 24 1992
Φ D 8523A

MIDDLE EAST
Arafat – leader with a waning role
Page 4

World News

South African Conservatives threaten to boycott poll

South Africa's white supremacist Conservative party has threatened to boycott the referendum proposed by President F W de Klerk to test white support for a post-apartheid constitution.

Mr de Klerk's position in *the poll could* be strengthened by signs that his ruling National party and the ANC are closer to agreement on an interim government. A deal which gives the Nationalists a large share of power could help persuade reluctant whites to vote yes in the poll. Page 14

Tycoon on drugs charge
Supermarket tycoon Ben Dunne, one of Ireland's richest men, has been accused of drug trafficking in Florida after the discovery of cocaine in his hotel room. Page 3

THE MOOD OF BRITAIN

The British electorate is preparing to make its choice. The nation remains tantalisingly undecided as decision day approaches. *On Page 6*, the first of five articles looks at how Britain and the British have changed during 13 years of Conservative rule and identifies their hopes and expectations for the 1990s

Cyprus room shortage
Cyprus's £1m TV promotion campaign has proved so successful that there are fears the number of British tourists arriving this summer will exceed hotel beds available by 50,000. Page 14

Animal trade fight looms
Environmental lobby groups from across the world gather in Kyoto, Japan, this week, to wage war over the plight of the world's endangered species. Page 14

Algerian reshuffle
Algeria formed a new government which includes one Islamic fundamentalist and a dissident member of the leading lay-opposition party. Page 4

Socialists name leader
Portugal's opposition Socialist Party chose Antonio Guterres, an energetic 42-year-old pragmatist, as its new leader to try to revive *its fortunes* after last year's election defeat.

Abortion ban queried
Irish foreign minister criticised the High Court *judgment* which barred a 14-year-old schoolgirl from travelling to Britain for an abortion. He was speaking on the eve of an appeal. Page 3

Soldier in joyride
A British soldier in Germany *smashed a 20-tonne* armoured personnel carrier through his barracks gate in Iserlohn, and left a five-mile trail of destruction before coming to rest in a river.

Icelandic trawler sinks
An Icelandic trawler sank suddenly in Arctic waters off Iceland's north-west *coast. Eight* men were found alive. Three crew are still missing.

Snow blankets Greece
A cold snap covered southern Greece with snow, immobilising cars, aircraft and ships and cutting off more than 300 villages.

Ivanisevic triumphs
Goran Ivanisevic of Croatia served up 33 aces to upset world number two Stefan Edberg in the Stuttgart Classic tennis final, winning 6-7 5-7 6-3 6-4 6-4.

Business Summary

BA merger talks with KLM reach critical stage

Merger talks between British Airways and KLM Royal Dutch Airlines have reached a critical stage after nearly breaking down last week over the shareholder structure of the proposed new company.

BA said last night that discussions were *continuing* in an attempt to break the deadlock over price and ownership structure. Page 15

JAPAN'S MOTOR industry may not be able to escape the structural shake-outs which have hit western carmakers, according to a report from the Economist Intelligence Unit. Page 4

BRAZIL begins formal negotiations today with the Paris Club of official creditors, confident of swift approval for the restructuring of its $22bn debt. Page 5

CS FIRST BOSTON, global *investment bank which suf*fered heavy losses and internal upheaval in 1990, will today underline its return to health by reporting net earnings of $215m *for 1991. Page 17*

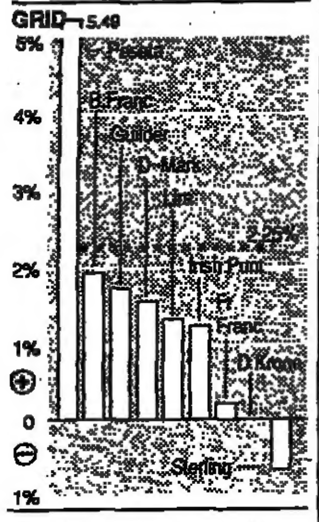
CAPITAL MARKETS: Borrowing on international financial markets in 1991 reached a record $518bn, a "remarkable achievement" in light of world economic conditions, the OECD said. Page 17

LONDON Stock Exchange is poised to drop its requirement that market makers publish details of large trades, reversing last year's move to greater transparency. Page 15

ALITALIA, Italy's national airline, sharply reduced group net losses to L34.5bn ($27.9m) last year from L97.7bn in 1990. Page 17

EUROPEAN Monetary System: Sterling remained stuck to the floor of the grid, despite a resilient performance on the foreign exchanges. The peseta enjoyed some strength against the D-Mark until Friday when it eased a touch, while the French franc recorded five-month highs against the German unit. Currencies, Page 25

EMS February 21, 1992



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

NFC, UK freight and trucking group, is unlikely to see any real improvements in earnings in 1992, with pre-tax profits forecast roughly steady at £90m to £100m ($158m-$175m) in the year to September 1992. Page 15

AIRCRAFT INDUSTRY: Airlines cancelled 138 orders for new aircraft last year, the highest total since 1982, threatening the world commercial airline industry with short-term crisis. Page 4

Call for weaker Emu states to have fewer rights

By Christopher Parkes in Bonn

EUROPEAN Community countries which do not meet the strict economic standards necessary for membership of the planned European Monetary Union should not be allowed the same rights in decision making as those which do, Mr Theo Waigel, the German finance minister, said yesterday.

It was unlikely that all 12 EC members would be able to take part in Emu by 2000, he said. The European Parliament should have a limited say until all had joined. "We must develop new authorities."

Managing Emu and the European central bank would be "impossible if countries with inflation of 15 or 20 per cent had the same rights of co-determination as those which fulfilled the stability criteria, such as inflation rates of perhaps 2 or 3 per cent".

EC leaders agreed at the Maastricht summit in December to press on to full economic and monetary union, including a single currency, by 1999.

Mr Waigel's proposals are likely to stir resentment in the council of ministers as well as the parliament, which was promised increased powers at Maastricht. They were made in response to growing scepticism in Germany about the chances of achieving the degree of economic convergence needed for full-blown union.

There was also protest recently at commission requests for increased contributions to the EC budget when the stagnating German economy is also having to prop up reconstruction in the former East Germany. "We are clearly not in a position to provide such resources," Mr Waigel said.

The Bundesbank has complained regularly that the summit agreed on Emu without the necessary commitment to simultaneous movement towards political union. But the minister is confident of more progress in developing common foreign and security policy and policy on issues such as asylum seekers and refugees. Popular German concerns have focused on the sacrifice of the D-Mark to what has been called "Esperanto money", and the floods of asylum seekers from eastern and south-east Europe.

Mr Otto Lambsdorff, chairman of the FDP minority coalition party, said the government had not done enough to reassure people about the stability of the new single currency. There were "still many hairs in the Maastricht soup". Questions included what sanctions would be applied to Emu members which breached rules on budgetary discipline.

EC agrees to speed up elimination of CFCs

By David Gardner in Estoril, Portugal

THE European Community has agreed in principle to phase out chlorofluorocarbons and all other ozone-depleting substances by the end of 1995.

This is 1½ years earlier than the EC's original target, which was for CFCs only, and four years earlier than stipulated by *the Montreal Protocol*, the international agreement.

Environment ministers of the Twelve, meeting informally in Portugal at the weekend, took the decision even though the European Commission – which initiates all EC legislation – has yet to draw up a formal proposal.

The EC's move follows the US decision two weeks ago to advance by five years its own date for phasing out CFCs and "most other ozone depleting substances" – from the end of 2000 to the end of 1995.

It also follows a wealth of new scientific evidence about *the destruction of the ozone* layer, including predictions of a new ozone "hole" above the Arctic circle, and forecasts of an increase in eye cataract conditions and skin cancer caused by the ultra-violet radiation which the ozone layer serves to filter out.

The 12 environment ministers expect formally to approve on March 23 the earlier end to CFCs, which are used mostly in refrigeration, aerosols, air conditioning and insulation. The other chemicals whose production and use will be phased out are: carbon tetrachloride, a dry-cleaning solvent; halons used in fire-extinguishers; and methyl chloro*form, used to clean precision* engineering components and printed circuit boards.

Chemicals industry searches for safe CFCs substitute ....Page 2

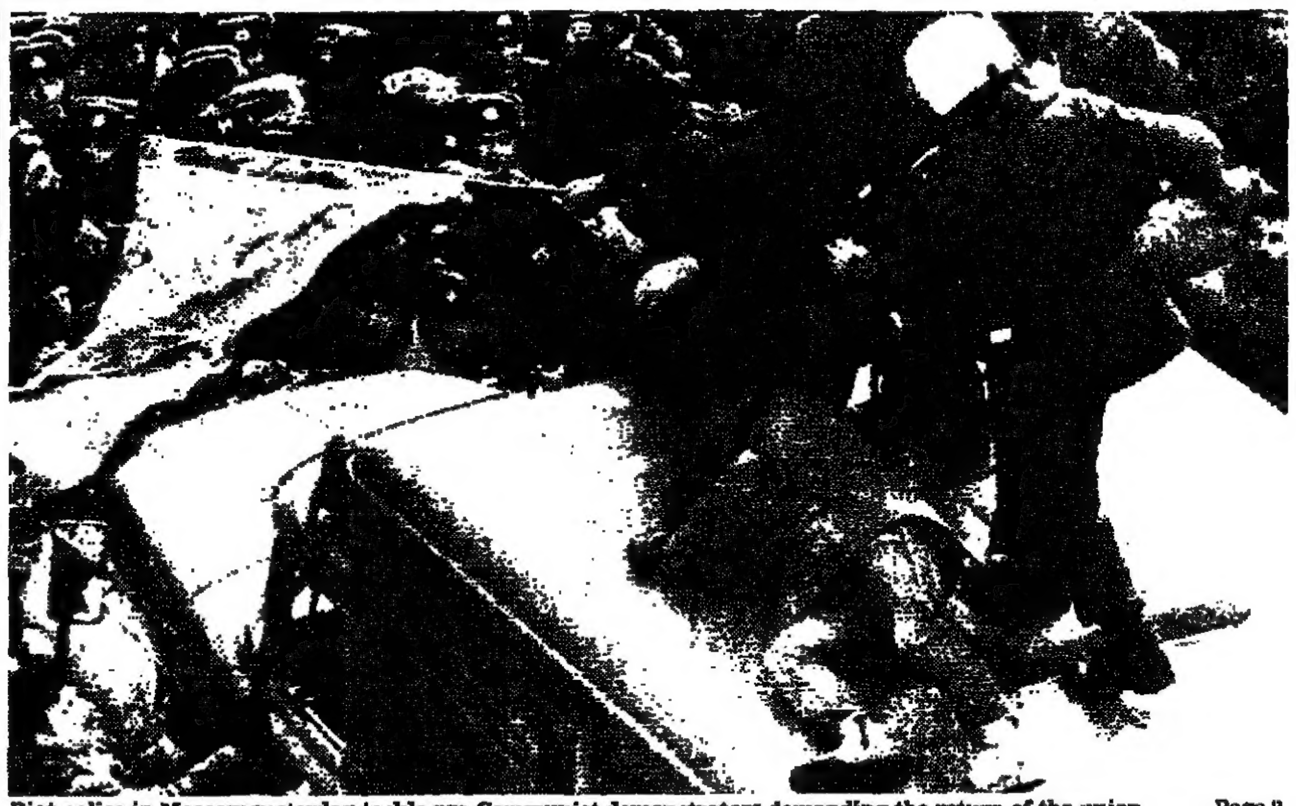
Mr Carlo Ripa di Meana, EC environment commissioner, said his proposal would call for an 85 per cent reduction in all these chemicals by the end of next year.

He also wants the new targets written into the Montreal Protocol, which governs international action on the ozone layer, along with controls on so-called "transitional substances" or HCFCs, which have 5 per cent of the ozone-depleting effect of the chemicals they replace.

Germany, Denmark, the UK and Luxembourg had decided independently to accelerate the CFC phase-out to 1995 in what Mr Ripa di Meana called "an escalation of virtuous behaviour".

The EC's unconventionally precipitate move on ozone is partly an attempt to wrest back the environment policy initiative from the US ahead of June's "Earth Summit" in Rio de Janeiro.

Mr Ripa di Meana in particular wants to keep up momentum behind his controversial
Continued on Page 14



Riot police in Moscow yesterday tackle pro-Communist demonstrators demanding the return of the union .... Page 2

Nato warms to ex-Soviet states

By Chrystia Freeland in Kiev

NATO is inviting all but one of the former Soviet republics to join its Co-operation Council, in one of the most striking steps towards closer east-west relations since the end of the Cold War.

Mr Manfred Wörner, secretary general of the Atlantic alliance, said in Kiev yesterday Ukraine had agreed to attend a March 10 meeting of foreign ministers in Brussels and an April 1 gathering of defence ministers.

Today in Moscow he is expected to extend the invitation to Russia and all other Commonwealth of Independent States members but not to the troubled former Soviet republic, Georgia. "We are turning confrontation to co-operation," Mr Wörner said. "We see our main objective now in providing and protecting stability. This is why we have extended the hand of friendship to our former enemies."

He did not spell out the precise role which was envisaged for the republics within the Nato structure, saying only that in addition to consultation and co-operation, a third aim was the "exchange of information with as much transparency as possible".

■ **Ukraine signs deal to buy Iranian oil......Page 2**

Mr Wörner said that Nato's top concerns were ratification of the Conventional Forces in Europe (CFE) and Start treaties, adding that Ukraine's non-nuclear stance should facilitate the implementation of Start. Nato was also anxious that CFE ceilings should not be exceeded. Ratification of the CFE is stalled as Ukraine and Russia bicker over their share of the allotted quotas.

At the weekend relations between the two republics deteriorated. The Ukrainian *foreign ministry sent Marshal* Yevgeny Shaposhnikov, the commander of the United Commonwealth Forces, who has been seeking to preserve a single Soviet military, a note protesting his "distortion" of the Ukrainian position on the Black Sea fleet.

The note questions Mr Shaposhnikov's neutrality and could foreshadow a Ukrainian call for his dismissal.

Despite these differences, the new geopolitical order was underscored for Mr Wörner's hosts by the timing of his visit.

Yesterday was traditionally Red Army Day, an occasion the old regime celebrated with displays of military hardware and parades of soldiers.

Mr Wörner rewarded Ukraine's efforts to rid itself of nuclear weapons, assuring the nation that a peaceful Ukraine "*will not be threatened* by any of our weapons."

Senior Nato officials confirmed that Mr Wörner's remark implied that no Nato weapons are targeted on Ukraine, which has transformed the conventional Soviet forces stationed on its territory into a Ukrainian army.

After meeting Ukrainian President Leonid Kravchuk and foreign and defence ministers, Mr Wörner praised Ukraine's intention to remove all strategical nuclear weapons by 1994 and all tactical weapons by July.

Tsongas closes on Clinton for Democratic nomination

By George Graham in Atlanta and Nancy Dunne in Washington

THE CAMPAIGN for the US Democratic presidential nomination by Mr Paul Tsongas, winner of last week's New Hampshire primary, gained further ground at the weekend with the release of an opinion poll showing him narrowing the gap with Governor Bill Clinton of Arkansas, the national front-runner.

The Democratic candidates face a gruelling test over the next two weeks, with 22 states holding their primaries or caucuses, culminating in the 11-state "Super Tuesday" ballot on March 10.

Yesterday they were awaiting results of a caucus in Maine, where Mr Tsongas was expected to pick up the most delegates and Mr Jerry Brown, *the former California governor*, was waging an intense campaign on his anti-corruption crusade.

Vice-President Dan Quayle *was meanwhile defending* President George Bush's record from right-wing criticism by Mr Pat Buchanan, who is challenging Mr Bush for the Republican nomination.

Mr Quayle on television described Mr Bush as "a good conservative" and commended the jobs package in the budget unveiled last month as a non-political, pro-family initiative. However, he immediately acknowledged that it would "play well in middle America".

Last night all five Democratic candidates were due to face off in debate again in South Dakota, where Tuesday's primary may provide the first winnowing of the field. Senators Bob Kerrey of Nebraska and Tom Harkin of Iowa are competing fiercely there; a loss could prove fatal for one or both.

Mr Tsongas has been gaining on Mr Clinton since his victory in New Hampshire on Tuesday. A New York Times/CBS poll showed the governor leading by 29 per cent to 24 per cent. Before New Hampshire, one Gallup poll showed Mr Clinton leading by 42 per cent to just 9 per cent.

Mr Tsongas sought to consolidate his gains with an interview *in which* he was frank in recognising the health fears that surround his candidacy.

He said he had been searching for more than a year for a "superbly qualified" candidate to run with him for the vice-presidency, in anticipation of questions about his health, as an ex-cancer sufferer.

With 10 days to go before its March 3 primary, Georgia is relishing its role as the first southern state to cast its votes in the presidential nomination campaign.

Georgia should be home territory for Mr Clinton, who has spent 10 years as governor of another southern state and who has warm links with many of Georgia's centrist Democratic politicians.

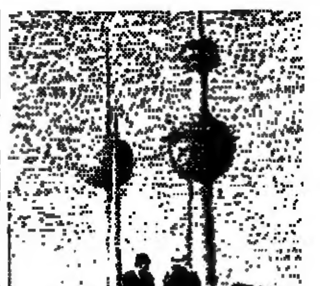
Virtually the entire Democratic establishment – from Governor Zell Miller to Senator
Continued on Page 14

CONTENTS

THE MONDAY PROFILE

The UK budget is less than a month away, and while the chancellor of the exchequer will make the important decisions, he will rely heavily for advice on *Sir Terry Burns*, the permanent secretary at the UK Treasury. Page 30

FT SURVEYS THIS WEEK



Above : Kuwait city's famous water towers.

KUWAIT
Wednesday's survey: See details, right.

■ **TOMORROW :**
Conferences and Exhibitions : Size and length of events trimmed for tougher times.

■ **WEDNESDAY :**
Kuwait : Plans based on a smaller and less diverse population.
European Finance and Investment : Back to tending the core domestic operation.

■ **THURSDAY :**
Dominican Republic : *Political* pattern remains frozen in an improving economic environment.

■ **FRIDAY :**
European Offshore Centres : Hoping for a boost from the Single Market process.

Communists take to streets of Moscow on Armed Forces Day

Demonstrators demand return of Union

By Leyla Boulton in Moscow

ABOUT 5,000 communist demonstrators yesterday seized upon the former Red Army's traditional holiday to attack the Russian leadership and demand the restoration of a country and parliament which no longer exist.

Bearing pictures of Lenin and Stalin and placards saying "Peoples of the USSR Unite" and "Hurray to the Soviet Army", the crowd tried to push its way through police barriers to march on the Kremlin.

The aim was ostensibly to pay homage to the armed forces at the tomb of the unknown soldier at the foot of the Kremlin walls.

Armed Forces Day has been renamed, dropping the word "Soviet". Yesterday, it provided an opportunity for supporters of the outlawed Communist party – mostly pensioners, officials and professionals, with a few token officers – to vent their anger at the collapse of the Soviet Union and harsh market reforms.

"Our government are traitors," complained Ms Elena Dvortsova, a retired Communist chemical worker. "They've betrayed the workers. They've turned our savings into nothing. They've sold out to the Americans and they got rid of the Soviet parliament in just one day. If this is democracy, we don't want it."

"The democrats are surrounding us like the Germans at Stalingrad," was how a retired engineer described the city authorities' decision to forbid demonstrators to proceed to Manezh Square.

"We'll get through next time," shouted another old age pensioner, explaining that a similar demonstration would be held on March 15 to back demands for the reconvening of the Soviet parliament.

Also present were the predictable communist-nationalist duo of Colonel Viktor Alksnis, a former co-chairman of the hardline Soyuz (Union) faction in the Soviet parliament, and Mr Vladimir Zhirinovsky, whose so-called Liberal-Democratic Party wants to reconstitute the Soviet empire.

President Boris Yeltsin, who laid a wreath at the tomb of the unknown soldier and watched a march-past of soldiers carrying the Russian flag, may have taken comfort from the relatively small size and marginal nature of the demonstration.

Although there were a few violent scuffles when demonstrators tried to break through a line of baton-wielding police backed by a line of trucks, there were no serious injuries.

It also provided a low-key parallel to last March, when President Mikhail Gorbachev tried to ban a much larger demonstration in support of Mr Yeltsin.

Nonetheless, it was no coincidence that the Armed Forces holiday has been preceded by a series of statements by President Yeltsin and Marshal Yevgeny Shaposhnikov, the Commonwealth commander-in-chief, trying to combat the discontent in the armed forces. President Yeltsin on Thursday issued a decree raising officers' minimum pay to Rbs1,800 a month, and promising measures to deal with the military's acute housing shortages. His government has also publicised plans to expand arms sales abroad – to help finance increased spending on the army's welfare and the conversion of military factories to civilian output.

Marshal Shaposhnikov, meanwhile, has cautioned against haste by republics seeking to imitate Ukraine in establishing their own army. In a weekend newspaper interview, he said Azerbaijan should not create its own army until it had resolved the conflict with Armenia over Nagorno-Karabakh by political means.

Russian President Boris Yeltsin pays homage to the armed forces yesterday by laying a wreath at the tomb of the unknown soldier, which is at the foot of the Kremlin walls

Ukraine signs deal to buy Iranian oil

By Chrystia Freeland in Kiev

UKRAINE at the weekend moved to protect itself from a looming economic war with Russia by signing a deal to purchase 4m-5m tonnes of crude oil annually from Iran – about 10 per cent of Ukraine's consumption – in exchange for construction materials.

Mr Konstanin Masyk, the Ukrainian deputy prime minister, met Iranian officials in Tehran. According to Mr Viktor Hladuch, Ukraine's minister for industry and transport, the two countries agreed to build three pipelines, with an annual capacity of 25bn cubic metres, from Iran to Ukraine via Azerbaijan and Russia.

The cost of the project, which was not revealed by officials, is to be split between the Ukraine and Iran (45 per cent each) and Azerbaijan (10 per cent).

Eventually Iranian oil and gas could be refined in Ukraine – which has a 60m tonne capacity – and sold to Europe.

Mr Hladuch said Ukraine had also begun to expand port facilities in Odessa. Odessa's capacity is less than 10m tonnes, leaving Ukraine dependent on the overland route through Russia and thus vulnerable to an economic blockade.

Mr Hladuch said Ukraine, which would have a trade deficit with Russia of upwards of $10bn at world prices, hoped to avert economic warfare.

Chemicals industry searches for safe CFCs substitute

By John Hunt, Environment Correspondent

THE EC environment ministers' decision at the weekend to go for an earlier deadline on eliminating ozone-depleting chlorofluorocarbons (CFCs) comes as the leading chemical companies such as Du Pont and ICI are already well advanced in phasing out their production.

The difficulty is in providing a safe non-ozone depleting substitute that will replace essential uses of CFCs.

They are used in aerosols, refrigeration, air conditioning, insulation, fire extinguishers, and cleaning in engineering, electronics and computers.

Yesterday Greenpeace renewed its call for a complete ban on production and use of CFCs.

However, the chemical industry and the users of these substances say that this is impossible until safe substitutes are produced in enough volume to replace existing CFCs.

Hydrochlorofluorocarbons, or HCFCs, are a substitute for many CFCs in refrigerators but still cause some damage to the ozone layer. HFCs (hydrofluorocarbons), produced by ICI and Du Pont, do not destroy ozone but environmental pressure groups object to them on the grounds that they can contribute to global warming.

In any case present production of HFCs is only large enough to meet about 5 per cent of demand, says ICI.

ICI, which produces CFCs at is Runcorn, Cheshire plant in the UK yesterday welcomed the result of the Estoril meeting. It will cease CFC production by 1995 and will stop producing the two big ozone depleters, CFCs 11 and 12, by 1993.

However, it has arranged to buy in supplies of CFC 11 and 12 from Akzo, the Dutch chemical company, so that it can continue to supply a declining market until substitutes are provided.

Meanwhile, in Germany, Mr Klaus Toepfer, the environment minister, is pressing industry to stop producing and using CFCs by next year.

Romanian poll test for opposition

ROMANIANS voted yesterday for mayors in most of the country's big cities in a second-round ballot testing opposition strength ahead of general elections this spring, AP reports from Bucharest.

Polls took place in 1,611 participating municipalities. In the first round of local elections on February 9, which took place mainly in small towns and villages, the governing National Salvation Front beat the opposition Democratic Convention.

The results, however, indicated a loss of support for the Front.

The Front took power during the December 1989 anti-communist revolution and then won general elections overwhelmingly.

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Bosnians agree on existing borders to ease tension

By Laura Silber in Belgrade

THE leaders of the three main national groups in Bosnia-Hercegovina at the weekend agreed to recognise the existing borders of the central Yugoslav republic to ease tensions in the run-up to the republic's referendum on independence.

The agreement, reached during European Community-brokered talks, represented a concession by the leaders of Bosnia's Serb and Croat communities to Mr Alija Izetbegovic, the Moslem president of Bosnia.

But, at the same time, Mr Izetbegovic said he had compromised and accepted the formation of several national territorial units within Bosnia.

Moslems account for 44 per cent of the 4.4m population, followed by Serbs (33 per cent) and Croats (17 per cent). Although Slavic, the Moslems see themselves as Bosnian and believe that any division of the republic between Serbia and Croatia would leave them homeless.

On his return from the weekend talks in Portugal – which holds the EC presidency – Mr Izetbegovic yesterday said his concession would enable the continuation of talks with Mr Radovan Karadzic, the leader of Bosnia's Serbian Democratic Party, and Mr Mate Boban, who heads the Croatian Democratic Union.

Serb and Croat leaders have urged re-organisation of the republic along regional lines to limit central control.

A western diplomat said: "It appears that every Serb and Croat politician in Bosnia has a copy of the Swiss constitution. They want to see if it is possible to transplant Swiss cantons to Bosnia."

Serbia and Croatia have held talks over the division of Bosnia.

In an effort to prevent the carve-up of the central republic, leaders of Bosnia's Moslems insist on a "republic of citizens rather than of national groups".

Mr Jose Cutileiro, a Portuguese diplomat who chaired the talks among Bosnia's leaders told journalists: "We have achieved some progress so far and I hope that we will continue to make more." He said that talks on the future constitutional arrangement of Bosnia would be continued on Thursday under the auspices of the EC peace conference on Yugoslavia.

The talks could ease tensions among Bosnia's volatile population before the referendum set for February 29 and March 1. But extremists from the Serb and Croat communities, who hope to join their kin in neighbouring republics, still threaten to secede from Bosnia.

It is uncertain whether the more moderate national leaders will be able to honour their agreement to respect Bosnia's existing borders. They must bring check hardline nationalists and take control of the political agenda.

INTERNATIONAL NEWS

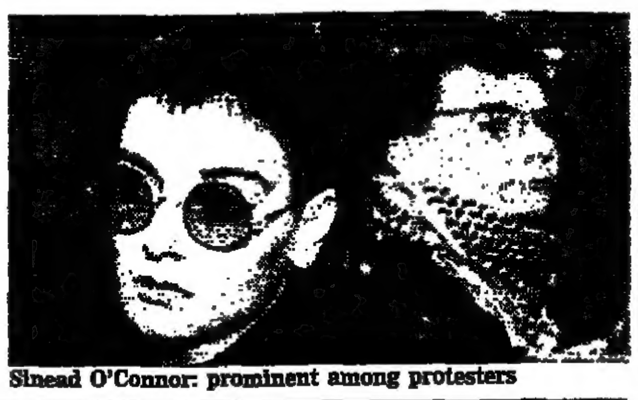
Supreme Court to rule on abortion row

THE focus of Ireland's abortion controversy shifts to the Supreme Court today following the decision of the family of a 14-year-old rape victim to appeal against a High Court injunction made last week which prevents her from travelling to Britain for an abortion, Tim Coone reports from Dublin. At the weekend, some 5,000 demonstrators blocked the streets of central Dublin in protest at the High Court ruling, and demanded a referendum on the abortion issue.

Prominent among the demonstrators was Sinead O'Connor, the Irish singer who has admitted publicly to having had two abortions in Britain. Further demonstrations are planned for today and tomorrow. The Supreme Court is expected to make its ruling by Wednesday.

The government has offered to pay the costs of the appeal, and is clearly hoping that the Supreme Court will overturn the High Court injunction, which many legal experts in Dublin regard as having been an exceptionally rigid interpretation of the 1983 "right-to-life" constitutional amendment. If the Supreme Court upholds the injunction, however, the Irish government may then be forced to hold a referendum in order to avoid being dragged through the European Court of Justice.

Mr Albert Reynolds, the prime minister, said last week that he would call for a referendum on abortion "as a last resort". Few political leaders in Ireland wish to see a re-run of the bitter and divisive debate that took place in 1983.



Sinead O'Connor: prominent among protesters

Maltese cross: Dr Eddie Adami, prime minister and leader of the ruling Nationalist party, leaves a booth after voting in Malta's general election at the weekend

EC tornado forces subsidy rules on Spain's lossmaking industries

By Peter Bruce in Oviedo, Asturias

THE EUROPEAN MARKET

MR JOSE ANGEL Fernandez Villa spent Christmas down a coal mine just outside Oviedo, the Asturian capital, in protest at government plans for the retirement of 6,000 miners from Hunosa, the decrepit state mining company.

Then, earlier this month, he announced his retirement as leader of the powerful Soma-UGT mineworkers' union, to take advantage of the very same retirement scheme. His going was a first victory in what is becoming an industrial tornado in Spain. Madrid is finally giving in to European Community subsidy rules with a massive restructuring of its lossmaking steel, coal and shipbuilding industries before the advent of the 1993 single market.

Up to 30,000 jobs could be lost in these industries and many experts say this will not be nearly enough. Only about 20 per cent of the 140,000 employees at the big state industrial holding company, INI, work in profitable companies.

INI has meanwhile decided to go to the capital markets this year to raise $1.7bn in new funds for the handful of its companies it still considers viable.

But even these include desperate cases such as Ensidesa, the integrated steelmaker, which could have lost more than Pta30bn ($291.3m) last year and the Inespal aluminium group (losses of Pta25bn), which INI is trying to sell off to Alcan. Iberia, the state airline, lost Pta50bn last year and attempts by the government to recapitalise INI's newly created "viable division" – companies where profits are possible – are being monitored by the European Commission in case they are slipped illegal subsidies.

The sheer scale of the jobs threat has also jolted unions, especially as it coincides with the drafting of a tough economic convergence plan which the government hopes will guarantee Spain entry in the first division of the European Community's economic and monetary union at the end of this decade. A remark by Mr Claudio Aranzadi, the industry minister, to the effect that "the best industrial policy is not to have one," has also frightened workers.

Up to 30,000 jobs could be lost and many experts say this will not be nearly enough

In a violent protest a few weeks ago in Murcia, capital of the Mediterranean region which includes the naval works at Cartagena, the local parliament was attacked and badly burned.

The government is being very careful, and nowhere more so than in Asturias which is heavily unionised.

Hunosa, the biggest employer in the region, is Spain's biggest coal producer and a financial basket case. Since its creation out of 18 lossmaking coal producers in Asturias in 1967 it has never made a profit. "As a business, this is a ruin," says a refreshingly open official. "The idea never was to make any money but to create jobs in Asturias and supply Spain with coal."

That will no longer do. It costs Hunosa Pta32,000 to bring a tonne of coal to the surface and imports from South Africa can be landed on Spanish soil for a sixth of that. Last year the company lost Pta65bn and the European Commission has threatened legal action unless Madrid stops subsidising the operating losses.

Under a plan presented in Brussels recently, employment will be cut by a third, to 12,000. Some 4,500 workers – including Mr Fernandez Villa – will take early retirement on full pay until they are 68 years old. It is a good deal.

In regions such as Asturias, the Basque Country and parts of Murcia – which have suckled for years at the state's financial teat – the trick now is to implement industrial cuts while financing infrastructural investments which could help attract new investment to the regions and soothe troubled voters.

Regional politics are crucial to Spain's stability, and a few days after the Cartagena riot, the government said it was diverting $800m in new investment to the Murcia region. In the Basque Country, the possible closure of integrated steelmaking outside Bilbao is likely to be countered with the building of a huge steel mill. In Asturias, the government's promised new investment incentives will cost up to $4bn.

Asturias is particularly difficult. Unlike the Basque country, it has no tradition of private enterprise, and has poor road, rail and air links with Cantabria, the Basque Country and, ultimately, France.

However Mr Victor Zapico, the Asturian industry counsellor, or minister, insists: "We are not a lost cause. We just need to bury the notion that the state will always provide." Asturians hope a $1bn chemicals plant being built by DuPont near the port of Gijon will attract other investors but replacing lost coal jobs will be hard.

Unfortunately for Asturias, the government's 6,000 job cuts at Hunosa will draw losses down to just Pta50bn, and EC coal subsidy rules to be introduced in 1993 will probably be stricter. The present "plan" is a play for time, not a solution.

Government officials insist they are determined to cut industrial subsidies, however, and that they will not be intimidated by violence. "The stones (thrown at Cartagena) will not alter a single comma of the restructuring plan for Cartagena," said Mr Alvaro Espina, secretary of state for industry.

"The truth is that there are many [industrial] groups making money in the country [but] really innovative businessmen hardly ever walk the corridors of this ministry."

Lisbon socialists elect new leader

PORTUGAL'S opposition Socialist party (PS) yesterday chose Mr Antonio Guterres, an energetic 42-year-old pragmatist, as its new leader in an effort to revive its fortunes after last year's election defeat, Reuter reports from Lisbon.

Mr Guterres, who replaces the dry intellectual Mr Jorge Sampaio as secretary-general of the centre-left party, was overwhelmingly elected by 1,800 delegates at a three-day party congress.

He immediately challenged Prime Minister Anibal Cavaco Silva to a televised debate on the budget – presented earlier this month – which imposed value added tax on food.

The congress also elected a new 200-member National Commission dominated by Mr Guterres' supporters.

Mr Guterres challenged Mr Sampaio for the leadership after the PS, out of power since 1985, lost badly to Mr Cavaco Silva's centre-right Social Democrat party (PSD) in elections last October. the PS won only 29 per cent of the vote.

Mr Guterres has said he wants to rejuvenate the PS leadership and make the party more attractive to young people, whose interest has slid away from politics to making money in Portugal's economic boom. He also promised to widen the party's appeal to voters in the middle ground of the political spectrum.

Mitterrand's popularity in polls resumes decline

FRENCH President François Mitterrand's electoral popularity has resumed its decline in the wake of the brief admission to the country of Mr George Habash, the radical Palestinian, and ahead of regional elections next month, Alice Rawsthorn reports from Paris.

The proportion of the French electorate claiming to be "satisfied" with the president's performance has fallen by 2 percentage points over the past month to 24 per cent, according to the latest IFOP poll in Journal du Dimanche.

Similarly Mrs Edith Cresson, prime minister, saw her satisfaction rating fall from 23 per cent in January to 21 per cent.

Mrs Cresson's consistently poor showing in the polls has fuelled speculation that Mr Mitterrand will be forced to replace her as prime minister after the regional campaign in the hope of reviving the socialists' prospects in the national assembly elections next spring.

However Mr Jacques Delors, who is mooted as her likeliest successor, denied last Friday that he was considering a return to French politics at least until the end of his present term as president of the European Commission.

Strasbourg places ban on vehicles

STRASBOURG, the seat of the European parliament, today becomes the first big French city to ban vehicles from its central business district, AP reports.

City officials hope this will reduce congestion and pollution, but the local merchants' association is displeased, predicting a 10 per cent drop in sales.

Motorists without special permits will be required to park their cars on the perimeter of the central area. Free shuttle-bus service will be provided into the city centre.

Alleged trafficker returns to Dublin

MR BEN DUNNE, an Irish supermarket executive, returned to Dublin yesterday on bail of $25,000 (£14,286) after being charged in Florida with alleged cocaine trafficking, our Foreign Staff writes.

Orlando police said Mr Dunne was arrested last week after threatening suicide during a cocaine overdose at a hotel near Disney World.

Police said they had persuaded him not to jump from the 17th floor of the Hyatt Regency and then found 32.5 grams of cocaine in a plastic bag in his suitcase.

Fundamentalist's appointment to cabinet seen as conciliation move

Algerian reshuffle broadens scope

By Lara Marlowe in Algiers and Francis Ghiles in London

ALGERIA'S ruling Council of State announced at the weekend the formation of a new government which includes one Islamic fundamentalist and a dissident member of the leading lay-opposition party.

However, the cabinet reshuffle was greeted with scepticism by Algerians who had expected more radical changes.

The key portfolios of defence, the interior, foreign affairs and the economy remain unchanged.

In an apparent attempt to conciliate Moslem militants, Mr Sid Ahmed Ghozali, the prime minister, appointed a former senior member of the Islamic Salvation Front (FIS), who left the party nine months ago, as a cabinet minister. Sources close to the FIS in Algiers said Mr Said Guerchi's participation in the government, where he holds the post of minister of employment and vocational training would not diminish their hostility to the junta in power.

Mr Hashemi Nait-Djoudi, the former deputy leader of Hocine Ait-Ahmed's Front of Socialist Forces (FFS), was named minister of transport and telecommunications.

A highly respected economist, Mr Ahmed Ben Bitour, was appointed Treasury Minister, a key position considering the difficult financial situation Algeria finds itself in.

The ministry of human rights was dissolved and replaced by a human rights observer group which the government claims will be an independent organisation. Meanwhile, Mr Abderrazak Radjam, FIS information director, issued a communique claiming 150 people have been killed, 700 wounded and another 30,000 arrested this month.

The former minister of human rights said last week that only 5,000 had been arrested in the crackdown on Islamic fundamentalists.

By bringing dissidents from the two leading opposition parties into the government, Algerian authorities showed their willingness to work with parties which condemned the cancellation of parliamentary elections - on condition opponents recognise the legitimacy of the Council of State created after president Chadli Bendjedid's January 11 resignation.

The new cabinet is due to debate details of Mr Ghozali's economic recovery plan today - a plan which will place top priority on creating jobs, housing construction and encouraging foreign investment.

Mr Guechi resigned from the FIS in May 1991 to mark his disapproval of the general strike which later led to two weeks of rioting and more than 50 deaths. Although considered a traitor by FIS militants, his Islamic credentials include imprisonment in 1984 for participation in the late Mustafa Ben Bouyali's armed fundamentalist group.

The government has sent mixed signals on its policy towards the FIS, all of whose leaders have been arrested or gone underground.

Arafat watches from the sidelines

Tony Walker and Lamis Andoni on the PLO leader's waning role

THESE are not the easiest of times for the newly-wed Mr Yassir Arafat, the Palestine Liberation Organisation chairman. Not only does he continue to be confined to the margins of the Arab world due to his unpopular Gulf war stand, he is also being obliged to cope with persistent internal criticism over where, if anywhere, he might be leading an organisation whose role these days seems much less clear cut.

Nagging questions about the PLO's relevance are nothing new, nor is the fact that some of the strongest criticism is coming from within the ranks, but debate has been sharpened by a number of factors, including most especially the rise of new leadership faces from within the occupied West Bank and Gaza Strip, home to about one-third of the 6m strong Palestinian community worldwide.

While Mr Arafat will have his moments of publicity this week with bilateral talks resuming in Washington between Israel and its Arab neighbours, including the Palestinians, the PLO leader will seek as usual to be seen pulling the strings from Tunis. This is unlikely to still the unease felt throughout his organisation at what is seen as the continued erosion of its position. Indeed, for many of the senior cadres the issue goes well beyond relevance to questions about the PLO's very survival in its present form as an old-style national liberation movement in the post-cold war era.

Talk in Tunis and elsewhere in the Palestinian diaspora has been turning towards the creation of a "modern PLO" with reforms of the organisation's structure to enable wider popular participation that more accurately reflects the will and talents of Palestinians inside and outside the occupied territories.

Yassir Arafat: strongest criticism coming from within the PLO's ranks

Change will not come easily to an organisation, however, where an old-guard leadership still holds sway and where privileges are jealously guarded. And lurking in the background is the perennial question of whether Mr Arafat himself is capable of accepting democratic reforms of an organisation over which he has exerted obsessive control for the past 23 years.

Against the odds Mr Arafat has survived and confounded his legions of critics: but the end of the cold war, the withdrawal of East bloc support, and perhaps most important the collapse of Arab financial backing has exposed the PLO's "structural" weaknesses as perhaps never before. It can hardly pretend to be a functioning liberation movement, since its fighters are scattered throughout the Arab world and have not engaged the "enemy" for almost a decade.

While Mr Arafat's role of "puppeteer" in the peace talks allows him to claim that he is still firmly in control, this is not a substitute for direct participation, and the PLO leader must fear that somewhere down the road an autonomy agreement between Israel and the Palestinians of the occupied territories will further marginalise both himself and his organisation, although such agreement could not possibly be concluded without his imprimatur.

Mr Yitzhak Rabin, Israel's new Labour party leader, said yesterday he favoured a halt to settlements in the densely Arab-populated areas of the occupied territories, reports Judy Maltz in Jerusalem.

Mr Rabin was responding to reports that the US had issued an ultimatum on Friday, linking the provision of $10bn in loan guarantees to Israel to a complete freeze on settlement activities in the occupied territories.

Ministers in Mr Shamir's Likud government said yesterday they would reject any US ultimatum involving a freeze on settlements in return for the guarantees.

Mr Arafat must also suspect the flickering support he receives from more powerful Arab states such as Egypt has much less to do with their commitment to the PLO as the "sole, legitimate representative" of the Palestinians than it does with the perceived need to preserve the organisation as a distant guarantor of Palestinian participation in the peace process, and as a cover for Arab steps towards the normalisation of relations with Israel.

The PLO, in its present weakness, has precious little room for manoeuvre. For better or worse, it is wedded to a process whose success might, ironically, signal the end of its existence without the fruits of victory the Palestinians of the disapora have craved for so long. However it feels obliged to stay the course provided the US continues to exert pressure on Israel to stop settlement-building in the occupied territories.

Senior PLO officials say this is the *sine qua non* of their continued co-operation, and there seems no reason to doubt them.

Perhaps the most interesting consequence of the peace process, as far as the Palestinians are concerned, is the changing and evolving balance in relations between what is known as the "inside" and the "outside" that is between the Palestinians of the occupied territories and those of the diaspora, represented by the Tunis leadership.

There is no question that the influence of the "inside" has risen relative to the "outside" since the latest effort to bring peace to the Middle East was launched with much fanfare in Madrid last October, but representatives from the territories are still extremely careful about making suitably respectful gestures towards Tunis, to the extent that some Palestinians in Jerusalem grumble that their spokesmen and women the Faisal Husseinis and Hanan Ashrawis are "too loyal."

In the meantime, Palestinian institution-building is continuing apace in the territories with committees being established to deal with such grass-roots questions as housing, health and education in preparation for possible interim-self rule under an autonomy agreement. The Tunis leadership is obliged to watch all this and give cautious support at a distance.

While Mr Arafat may be able to console himself with the fact that he remains the "symbol" of Palestinian hopes, his exclusion from direct participation in negotiations on the future of at least part of his flock would certainly not accord with his aspirations at this critical time when voices are being raised for long overdue PLO internal reforms.

Japan's car makers may not escape shake-out as profits fall

By John Griffiths

FALLING profits, output and exports mean that Japan's motor industry may not be able to escape the structural shake-outs which have already affected western car makers, according to a new study from the Economist Intelligence Unit.

After a decade of what the report* describes as rampant growth, when Japan's new car market rose by 80 per cent and car output by nearly one-half, "the 1990s are shaping up to be a period, at best, of consolidation and restructuring to take account of the major new restraints with which the sector is confronted."

For the first time since 1984 Japan's new car market is shrinking, accompanied by spiralling production costs and sever labour shortages.

There has been a sharp decline in profitability, with the smaller, most vulnerable producers falling into losses.

The result, says the report's author, Mr Ian Robertson, has been "to reopen the debate concerning rationalisation among the country's nine car manufacturers."

The Japanese industry's problems are seen as being not only domestic.

The report warns that the resurgence of protectionist sentiment in the US could have knock-on effects in Japanese manufacturers' North American plants, many of which are operating at below break even point and facing the prospect of over-capacity.

Experience is also showing that Japanese production techniques including "just-in-time" practices, are not an unalloyed success when exported to "transplant" factories overseas, says the report.

A decision by Daihatsu, one of Japan's smallest manufacturers, to withdraw from the North American market is cited as an example of the difficulties being encountered.

However, it is predicted that in western Europe and some key regions elsewhere – notably south-east Asia – the Japanese industry progressively will install fully-integrated manufacturing operations, with exports from Japan playing a steadily diminishing role.

By 1999, the report forecasts, Japan will have production capacity for 1.8m vehicles in western Europe and a market share of 20 per cent – up from around 12 per cent now.

"Ultimately, all the regional operations will be fully integrated, including R & D facilities with unique model lines for each key region", the report concludes.

Japan's Motor Industry - A Perspective on the Future. Special Report No 2200. Available from EIU, 40 Duke St, London W1A 1DW. £450 or $895.

Commercial aircraft industry sees cancellations increase

By Paul Betts, Aerospace Correspondent, in Singapore

FT CONFERENCE

THE world commercial aircraft industry is facing a growing short-term crisis because of the oversupply of aircraft in a financially depressed airline market.

Airlines cancelled 138 orders for new aircraft last year, the highest total since the 1982 recession, Mr Gunter Eser, the director general of the International Air Transport Association (Iata), said in Singapore yesterday in an address to a Financial Times Conference on Asian-Pacific aviation.

Mr Emmanuel Vasseur, executive vice-president of France's Banque Indosuez, also warned that aircraft manufacturers including the European Airbus consortium, Boeing and McDonnell Douglas of the US were coming under increasing pressure as airlines reduced their new aircraft commitments and cut back their long-term fleet acquisition programmes.

Mr Eser said the airline industry would be lucky to contain its overall losses last year to between $3.5bn and $4bn (£2bn and £2.29bn).

"The immediate fall-out from this is evident. Aircraft orders and deliveries are being delayed or cancelled," added the head of the association grouping 202 airlines.

Airlines received 650 new jet aircraft last year and still have more than 3,000 on order. But the signs of a cutback are clear.

Mr Eser said orders placed last year dropped by 60 per cent compared with 1990 from 1,218 to 467 aircraft.

Iata's two largest member airlines – American Airlines and United Airlines – have already announced big cuts. American is deferring or dropping options on 93 aircraft valued at more than $5bn; United has cut 123 aircraft worth $6.7bn from its fleet plans for the next five years.

In Europe, the German carrier Lufthansa, which has just announced its first loss since 1973, is delaying orders for 11 new Boeing 737 and Airbus A320 airliners.

The growing problems now facing aircraft manufacturers were to a large extent of their own making by encouraging airlines to acquire more new aircraft than necessary in the late 1980s creating a significant overcapacity in the market, Mr Vasseur argued.

The manufacturers are focusing their attention on the Asia-Pacific airline market which continues to hold the best prospects for growth.

Mr Eser said Iata's latest forecast expected to see Asia-Pacific passenger traffic grow by 8.6 per cent a year between 1991 and 1995 and by a further 7.5 per cent a year between 1995 and 2000.

The Asia-Pacific region is expected to account for nearly 40 per cent of world international air traffic by the turn of the century.

But Mr Eser warned that continuing growth in air transport hinged on two factors. "Carriers must be able to finance new aircraft for fleet replacement and growth with as little hindrance from governments as possible," he said.

"Governments, in turn, must take a sufficiently long-term view to enable the vital extra infrastructure - airspace capacity, airports and access roads - to become a reality."

The International Civil Aviation Organisation (ICAO), the technical aviation arm of the United Nations, is due to examine the issue of moving from a bilateral to a multilateral system of economic regulations for air transport in Montreal at the beginning of April.

World shipbuilding activity at highest level for 15 years

By Richard Tomkins, Transport Correspondent

HEAVY demand for new merchant ships has brought the highest level of activity for 15 years to the world's shipbuilding industry, figures published today show.

The London-based Lloyd's Register of Shipping says gross registered tonnage (grt) of merchant shipping on order from all the world's yards at the end of 1991 was more than 8 per cent up on the previous year's level at 43.2m grt – the highest level since June 1977.

The latest figures continue the upward trend which began in 1989 following a long recession in the world's shipbuilding industry.

The recession began when a period of hectic shipbuilding activity was brought to an end by the Arab-Israeli war of 1973, leaving a glut of newly-built vessels - particularly tankers - on the market.

Mr Nick Granger, of the London-based Shipbuilders & Shiprepairers Association, said the recovery in the shipbuilding market had been caused not by any sudden surge in world trade or by a growth in the market for carrying goods by sea, but by the ageing of the world fleet.

"What we are seeing is quite simply replacement demand for all that tonnage that came

> The latest figures continue the upward trend which began in 1989 following a long recession in the world's shipbuilding industry, which left a glut of newly-built vessels on the market

onto the market in the mid-1970s," he said.

The need for replacement vessels had been strengthened by pressure on shipowners to operate safer vessels following the Exxon Valdez oil spill in 1989 and a series of bulk carrier losses, Mr Granger added.

The Lloyd's Register report shows that Japan and South Korea remain by far the busiest shipbuilding nations. Japan had 15.7m grt on order at the end of 1991 and South Korea had 9.4m grt.

Tanker tonnage accounts for just over half the total on order.

Merchant Shipbuilding Return: December 1991. Lloyd's Register of Shipping (Ref: MIPG/MPMS/GNW), 71 Fenchurch Street, London EC3M 4BS. Free.

Saddam's opponents seek unity

IRAQI opposition leaders met yesterday to try to forge a united front capable of toppling President Saddam Hussein, AP reports from Riyadh.

The closed-door session at Riyadh's Conference Palace was the first meeting of Iraqi opposition figures sanctioned by Saudi authorities since the end of the Gulf war.

The conference indicates that the Saudis, who have kept their distance from most Iraqi exile groups and especially the Iran-backed Shia Moslem factions, are taking a higher profile in organising efforts to overthrow Mr Saddam.

The meeting was attended by Hojatoleslam Mohammed Bakr al-Hakim, leader of the Tehran-based Supreme Assembly for the Islamic Revolution in Iraq, the main Shia opposition movement. Also there was Arshad Tewfiq, who resigned several months ago as Iraq's ambassador to Spain.

Arshad Tewfiq, who claims to have contact with anti-Saddam cells within the Baghdad regime, said most of the discussions involved working out an agenda.

The Al-Khaleej newspaper, published in Sharjah, reported that the Iraqi opposition leaders were preparing for a general congress to produce a "formula for ... unified political action in co-operation with the governments concerned with the situation in Iraq and the region".

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

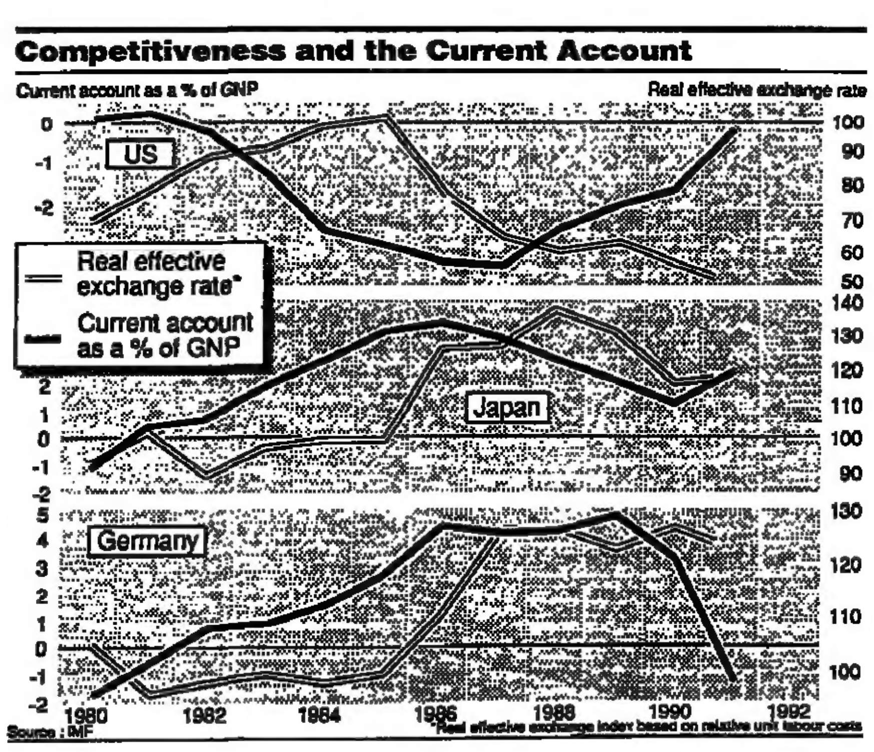
	UNITED STATES Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	JAPAN Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	96.6	102.0	99.9	77.1	100.6	95.3	101.4	103.3	125.7
1987	105.6	100.7	104.0	97.5	64.7	101.2	92.5	103.1	100.6	126.9
1988	109.9	103.2	107.0	98.4	59.9	102.2	92.3	107.8	96.2	137.4
1989	115.2	108.5	110.0	99.1	63.0	105.0	94.2	114.0	96.1	131.3
1990	121.5	113.9	114.0	99.2	56.6	108.2	95.7	120.1	98.2	116.1
1991	126.6	116.3				111.8				
1st qtr.1991	5.3	3.5	3.6	2.3	52.7	3.6	2.8	3.6	1.3	118.0
2nd qtr.1991	4.8	3.4	2.9	2.4		3.1	2.3	4.3	3.0	
3rd qtr.1991	3.9	1.9	3.2	2.5		3.3	1.7	3.3	4.0	
4th qtr.1991	3.0	−0.2				3.2	0.0			
February 1991	5.3	3.4	3.6	2.6	n.a.	3.4	2.8	5.4	1.0	n.a.
March	4.9	3.2	2.7	2.6	n.a.	3.4	2.6	4.1	3.0	n.a.
April	4.9	3.3	2.7	2.4	n.a.	3.0	2.4	4.0	3.0	n.a.
May	5.0	3.5	3.5	2.5	n.a.	3.0	2.4	4.0	2.0	n.a.
June	4.7	3.5	2.6	2.5	n.a.	3.3	2.2	4.6	4.0	n.a.
July	4.4	2.9	3.5	2.2	n.a.	3.4	2.0	1.9	3.0	n.a.
August	3.8	2.0	3.5	2.9	n.a.	3.5	1.9	6.5	5.0	n.a.
September	3.4	0.7	2.8	2.5	n.a.	3.0	1.1	2.9	4.0	n.a.
October	2.9	0.0	2.8	3.4	n.a.	3.1	0.3	2.8	6.1	n.a.
November	3.0	−0.5	2.6		n.a.	3.6	−0.1	2.7	6.0	n.a.
December	3.1	−0.1	2.6		n.a.	3.0	−0.1			n.a.
January 1992	2.6	-0.5			n.a.	2.0				n.a.

	GERMANY Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	FRANCE Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	104.0	104.0	111.3	102.5	97.2	104.5	101.5	101.9
1987	100.1	95.1	108.0	107.0	126.0	105.9	97.6	107.8	103.8	102.1
1988	101.4	96.2	113.0	107.0	126.2	108.8	102.8	111.1	104.3	99.3
1989	104.2	99.3	117.0	108.0	122.6	112.6	106.4	115.4	106.5	95.6
1990	107.0	101.0	124.0	110.0	126.8	116.4	107.1	120.6		100.6
1991	110.7	103.4				120.0				
1st qtr.1991	2.7	2.1	n.a.	2.8	124.2	3.4	0.7	n.a.	4.6	101.3
2nd qtr.1991	3.1	2.2	n.a.	3.0		3.2	−0.7	n.a.		
3rd qtr.1991	4.1	2.8	n.a.	4.8		3.0	−1.6	n.a.		
4th qtr.1991	4.0	2.4				2.9				
February 1991	2.7	2.2	—	2.7	n.a.	3.5	n.a.	—	n.a.	n.a.
March	2.5	1.8	6.7	2.8	n.a.	3.2	n.a.	4.6	n.a.	n.a.
April	2.8	2.2	—	0.9	n.a.	3.2	n.a.	—	n.a.	n.a.
May	3.0	2.2	—	4.4	n.a.	3.2	n.a.	—	n.a.	n.a.
June	3.5	2.3	6.4	3.6	n.a.	3.3	n.a.	4.2	n.a.	n.a.
July	4.4	3.3	—	1.8	n.a.	3.4	n.a.	—	n.a.	n.a.
August	4.1	2.7	—	6.4	n.a.	3.0	n.a.	—	n.a.	n.a.
September	3.9	2.6	6.4	5.4	n.a.	2.6	n.a.	4.3	n.a.	n.a.
October	3.5	2.3		5.4	n.a.	2.5	n.a.		n.a.	n.a.
November	4.2	2.5		4.5	n.a.	3.0	n.a.		n.a.	n.a.
December	4.2	2.6			n.a.	3.1	n.a.		n.a.	n.a.
January 1992	[illegible]	1.6			n.a.		n.a.		n.a.	n.a.

ITALY Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	UNITED KINGDOM Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1985
108.1	100.2	104.8	102.6	101.4	103.4	104.3	107.7	104.5	92.9	1986
111.0	103.2	111.6	105.6	102.5	107.7	108.3	116.3	105.9	90.6	1987
116.5	106.8	118.4	109.7	101.9	113.0	113.2	126.2	108.9	96.8	1988
124.2	113.1	125.6	112.2	109.2	121.8	119.0	137.2	113.6	95.0	1989
131.8	117.6	134.7	120.1	117.1	133.3	126.0	150.1	123.6	96.3	1990
140.3					141.2	133.2	162.4	133.7		1991
6.6	4.2	8.1	7.5	118.4	8.7	6.1	8.9	11.1	107.1	1st qtr.1991
6.8	3.9		11.6		6.0	5.9	8.5	10.9		2nd qtr.1991
6.4	3.1				4.8	5.5	7.8	6.9		3rd qtr.1991
6.1					4.2	5.0	7.8	4.4		4th qtr.1991
6.7	4.2	8.1	n.a.	n.a.	8.9	6.1	9.1	11.7	n.a.	1991 February
6.6	4.2	8.1	n.a.	n.a.	8.2	6.1	8.0	10.7	n.a.	March
6.7	4.0	8.5	n.a.	n.a.	6.4	6.2	9.2	12.8	n.a.	April
6.8	3.8	10.4	n.a.	n.a.	5.8	5.9	8.3	11.0	n.a.	May
6.9	3.8	10.3	n.a.	n.a.	5.8	5.7	8.0	9.0	n.a.	June
6.7	3.8	10.4	n.a.	n.a.	5.6	5.7	7.8	7.3	n.a.	July
6.3	2.9	10.9	n.a.	n.a.	4.7	5.5	8.3	7.8	n.a.	August
6.2	2.8	10.8	n.a.	n.a.	4.1	5.4	7.5	5.7	n.a.	September
6.1	2.2	10.8	n.a.	n.a.	3.7	5.0	8.3	5.9	n.a.	October
6.2	2.3		n.a.	n.a.	4.3	5.1	7.8	3.4	n.a.	November
6.0			n.a.	n.a.	4.5	4.9	7.4	3.9	n.a.	December
6.1			n.a.	n.a.	4.2	4.5			n.a.	1992 January

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – *manufactured* goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

Competitiveness and the Current Account



Source: IMF

How the exchange rate helps external adjustment

CAN CHANGES in nominal exchange rates bring about enduring changes in real rates of exchange? Can changes in real exchange rates bring about changes in the current account? Policy-makers in western Europe seem to assume that the answer to both questions is no. But the experience of the 1980s indicates that this is not necessarily so.

That, at least, is is the principal conclusion of a volume of essays published by the Washington-based Institute of International Economics late last year (the concluding essay of which, by Paul Krugman of the Massachusetts Institute of Technology, was published as number 34 in the Institute's series, Policy Analyses in International Economics).

In his introduction, Professor Krugman argues that "the decade's record of huge swings in exchange rates and trade balances gives us the best opportunity ever to sort out competing schools of thought in the economics of international adjustment, and perhaps even to get reasonably solid estimates of some key economics parameters." The result? The old wisdom about the exchange rate and adjustment may not work in theory, but it certainly worked in practice.

In his column on "why the case against devaluation is not clear-cut", which accompanied the above indicators on 20 January 1992, Edward Balls demonstrated that changes in nominal and real exchange rates were closely correlated for the US and, to a lesser extent, the UK. The same has been true for Japan. But it has been less true in the European Monetary System, where changes in both nominal and real exchange rates have also been smaller.

The accompanying charts show that there was also a close correlation between changes in real exchange rates (measured by relative unit labour costs) and the US and Japanese current accounts. German experience is more complex, but as revealing.

Having marched to the top of the hill by 1985, the dollar marched back down again. The current account started to turn around two years later. Japan's story is almost a mirror-image. The real exchange rate appreciated rapidly between 1985 and 1988, while the current account surplus fell, from a peak of 4 per cent of GNP in 1986 to a little over 1 per cent in 1990. Cushioned by the ERM, the German real exchange rate appreciated rather less than the Japanese from 1985. Although the surplus did stop rising as a share of GNP, it did not fall until 1990, when it was eliminated by the demand boost following German unification.

The German experience reveals that changes in external balances require changes in demand or, more precisely, changes in the relationship between aggregate income and expenditure. Fiscal consolidation and monetary restraint in the US, monetary expansion in Japan and, following unification, fiscal expansion in Germany all played important parts in the adjustments of 1985-91.

How then do changes in real rates of exchange interact with those in demand?

- *Ex ante* reductions in demand will not, on their own, bring about equivalent changes in external balances in the short to medium run, except when elasticities of substitution in production and consumption are high. They will bring about large domestic recessions, instead.
- Changes in demand will themselves lower (or raise) real exchange rates in the long run, via recession and lower inflation (or *vice versa*). But the long run could, indeed, be long.
- Depreciation of the real exchange rate would bring about external adjustment, without any complementary macro-economic measures, if the consequent increase in the incentive to produce were greater than in that to spend. But even if all the income generated by the expansion of net exports were spent, leaving nothing for improvement of the external account, the country would still benefit from higher economic activity.

The 1980s have witnessed a strong effort to persuade countries to abandon the exchange rate as an instrument of policy. Perhaps this new conventional wisdom needs to be reconsidered.

Martin Wolf

C. Fred Bergsten, ed, International Adjustment and Financing: The Lessons of 1985-1991 (Washington D.C.: Institute for International Economics, 1991).

Brazil opens debt talks with Paris Club

By Christina Lamb in Rio de Janeiro

BRAZIL begins formal negotiations today with the Paris Club group of official creditors, confident of rapid approval for the restructuring of its $22bn (£12.5bn) debt.

Following last month's ratification by the International Monetary Fund of a $2.1bn loan, Mr Marcilio Marques Moreira, the economy minister, and senior central bank officials have been touring European financial centres and Japan to lobby for support in the Paris Club. They believe they could have an umbrella deal in place by Wednesday.

"We have a very reasonable proposal on the table and expect to be able to turn that page this week," said Mr Arminio Fraga, international director of the central bank, in an interview with the Financial Times. "We believe more than $1bn in new credits could be forthcoming, largely from the Eximbank of Japan."

Diplomats doubt that the matter will be resolved in two days but admit that negotiations are taking place in a far more optimistic atmosphere than last year when Brazil demanded forgiveness of part of the debt.

This time, Brazil is requesting a rescheduling of $14bn in debt and arrears over the next 18 years. This encompasses debt which has already been rescheduled: a matter that some countries are unhappy about. A second rescheduling is against Paris Club tradition, but Mr Fraga says it is necessary in Brazil's case because "current obligations mean an excessive concentration of payments over the next two years".

Brazil is expected to offer an immediate payment of $1bn on its arrears. Brazil has not been paying interest to the Paris Club since its moratorium of 1989, although it started paying 30 per cent of due interest on its commercial debt a year ago.

Paris Club members want equivalent treatment for these arrears as that received by private banks in a deal last year. They will point out that Brazil's reserves are now at their highest level since the debt crisis, increasing its capacity to pay. In the last five months, reserves have risen from critical levels of $7bn to more than $11bn and creditor banks are pressing Brazil to increase the percentage of interest paid to compensate for the reduction in LIBOR.

Providing the Paris Club negotiations go smoothly Mr Moreira will fly to Europe to sign the bilateral agreements and then go straight to the US to resume talks with the commercial banks. The main sticking point with private creditors remains the guarantees Brazil is offering on new bonds but the gap has been reduced to just over $1bn.

US-China trade fuels MFN debate

NEW US-China trade figures are expected to provide ammunition in the Senate debate, due to begin soon, over legislation imposing stringent conditions on China's Most Favoured Nation (MFN) trade status, writes Nancy Dunne from Washington.

The US International Trade Commission said China's imports in the first nine months of 1991 rose from $11bn in 1990 to $13.1bn. Textile and clothing accounted for $8bn of this, but shipments of bicycles and costume jewellery were also up. Retailers continue to rely heavily on imports of toys, games, and sports and electrical equipment.

The US, which is trying to negotiate away Chinese trade barriers, had a $9bn trade deficit with China in the first nine months. Its largest exports to China were fertilisers ($728m), and aircraft ($641.5m).

China disputes US trade figures principally because it separates direct exports from exports to the US transferred through Hong Kong.

Aside from trade issues, the debate over MFN will focus on China's arm sales to Iran and the Middle East. Leading the attack, Senator George Mitchell, the majority leader, is also highlighting China's human rights abuses and prison labour exports.

President Bush will veto the legislation. However, he is likely to get a new version if, as expected, he opts to continue China's MFN status, without conditions, at its yearly renewal date in June. Meanwhile, his China trade policy is coming under attack in the presidential primaries.

Mrs Carla Hills, the US trade representative, is carrying the weight of the defence. In the administration's Section 301 trade case against China, she emphasises: "initial progress in beginning the process of reducing prohibitively high tariffs, import licensing requirements and improving transparency."

Venezuelans jittery after banker quits

By Joe Mann in Caracas

THE resignation last week of Mr Pedro Tinoco as president of Venezuela's central bank has left the Venezuelan government and investors jittery in the wake of the failed military uprising of February 4.

The resignation comes at a time when President Andres Perez is trying to gain broader support for his government and is expected to announce cabinet changes.

Mr Tinoco's departure seemed to cause most concern among Venezuelan bankers, who worry that his successor may not provide as much support for the domestic banking system. The government has proposed a series of reforms of Venezuela's financial system, including opening it up to foreign investment. Some of these are strongly opposed.

Mr Tinoco is a major shareholder in one of Venezuela's largest commercial banks, Banco Latino. His departure had been rumoured since last year, with unconfirmed rumours that he was leaving for health reasons.

In announcing his departure, Mr Tinoco, who will be 65 later this year, gave no indication that he was in disagreement with government policies.

On February 21, the day after the resignation was made public, the Caracas Stock Exchange Index fell by 1.5 per cent and Venezuela's currency, the bolivar, declined less than one per cent against the US dollar. The value of the bolivar has been falling against the dollar since the beginning of the year.

No one has been named to replace Mr Tinoco, but President Perez has reiterated his intention to push ahead with the unpopular economic reform programme his government initiated three years ago. This suggests that the new Central Bank chief will, like Mr Tinoco, support the reform plan.

OBITUARY: EUGENE R. BLACK

Prudent innovator in third world development

EUGENE R. Black, who died last week aged 93, will be remembered as a hard-boiled investment banker who used his talents to reduce economic misery in the third world.

He served as president of the World Bank from 1949 to 1962 and is widely credited with having secured its place as the world's pre-eminent development institution.

In 13 years he nearly doubled its membership from 48 to 80 nations, increased its capital base from $8bn to more than $20bn and made more than 300 loans to 60 countries.

"He played a central role in rebuilding Europe after World War Two", said Mr Lewis Preston, the current World Bank president. "The prosperity of many nations is a result of work he did decades ago."

Mr Black used his skills as a bond salesman to secure the bank's access to capital markets.

He also oversaw its transition from helping reconstruct war-damaged industrial countries to becoming a leading force for development in the third world.

He expanded the International Bank for Reconstruction and Development (IBRD) by creating two new affiliates - the International Development Agency (IDA), which makes concessional loans to the poorest countries, and the Investment Finance Corporation (IFC) - the bank's arm for promoting the private sector.

World Bank president from 1949 to 1962, he was instrumental in shaping the world's leading development institution

The tripartite structure has underpinned the World Bank's success for three decades.

He established the bank as a leading provider of finance for specific investment projects in fields such as agriculture, industry and energy.

The approach worked well in the bank's early years but was eventually criticised for failing to pay sufficient attention to the overall quality of a country's economic management.

In the 1980s, Mr Black's successors thus complemented project loans with lending tied to broader structural economic reforms.

Mr Black was born in Atlanta in 1898, the son of a governor of the Federal Reserve Bank of Atlanta.

He had a pronounced southern drawl and a reputation for bluntness and prudence.

A graduate of the University of Georgia, he served in the US Navy in World War One before beginning a career in investment banking where he became known for his expertise in the bond market.

In New York, he was a senior vice-president at Chase Manhattan bank before moving to the World Bank in 1947, initially as the US executive director.

He remained active after retiring from the World Bank, serving as an emissary for President Lyndon Johnston in south-east Asia where he helped lay the ground for the creation of the Asian Development Bank.

In the 1960s, he was a financial adviser to U. Thant, the United Nations secretary-general, and helped the UN collect $120m in unpaid subscriptions.

He was also a chairman of the Brookings Institution, the liberal Washington think-tank, the author of "The Diplomacy of Development" and a non-executive director of a sheaf of blue-chip companies.

Black: will be remembered as a hard-boiled investment banker

LEGAL NOTICES

IN THE MATTER OF PROVENCE UK LIMITED AND IN THE MATTER OF THE INSOLVENCY ACT 1986

In accordance with Rule 4.106 of The Insolvency Rules 1986 notice is hereby given that I, Peter S. Dunn FCA, a Licensed Insolvency Practitioner of Latham Crossley & Davis, 45 Conduit Street, London W1R 9FB, was appointed Liquidator of the above Company by the Creditors on 13th February 1992.

Dated this 13th February 1992
Peter S. Dunn FCA, Liquidator
Latham Crossley & Davis
45 Conduit Street, London W1R 9FB

IN THE MATTER OF GROVEKEY PROPERTIES LIMITED AND IN THE MATTER OF THE INSOLVENCY ACT 1986

In accordance with Rule 4.106 of The Insolvency Rules 1986 notice is hereby given that I, Peter S. Dunn FCA, a Licensed Insolvency Practitioner of Latham Crossley & Davis, 45 Conduit Street, London W1R 9FB, was appointed Liquidator of the above Company by the Creditors on 13th February 1992.

Dated this 13th February 1992
Peter S. Dunn FCA, Liquidator
Latham Crossley & Davis
45 Conduit Street, London W1R 9FB

IN THE MATTER OF MICHEA PROPERTY COMPANY LIMITED AND IN THE MATTER OF THE INSOLVENCY ACT 1986

In accordance with Rule 4.106 of The Insolvency Rules 1986 notice is hereby given that I, Peter S. Dunn FCA, a Licensed Insolvency Practitioner of Latham Crossley & Davis, 45 Conduit Street, London W1R 9FB, was appointed Liquidator of the above Company by the Creditors on 13th February 1992.

Dated this 13th February 1992
Peter S. Dunn FCA, Liquidator
Latham Crossley & Davis
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IN THE MATTER OF FRENCH CASUAL DEALING LIMITED AND IN THE MATTER OF THE INSOLVENCY ACT 1986

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Peter S. Dunn FCA, Liquidator
Latham Crossley & Davis
45 Conduit Street, London W1R 9FB

COMPANY NOTICES

LEEDS PERMANENT BUILDING SOCIETY
£250,000,000
Floating Rate Notes Due 1997

In accordance with the terms and conditions of the Notes, the interest rate for the period 21st February, 1992 to 21st May, 1992 has been fixed at 10.4125% per annum. The interest payable on 21st May, 1992 against Coupon 9 will be £256.05 per £10,000 nominal and £2,560.45 per £100,000 nominal.

Agent Bank and
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ROYAL BANK OF CANADA

THE MOOD OF BRITAIN

Throughout Britain the electorate is preparing to make its choice. Prime Minister John Major must call an election by July 9. As voting day approaches the nation is undecided, fed up with the fall-out from recession but wary of Labour's new image. **Michael Cassell,** in the first of a series of five articles, takes to the road to see how the UK has changed during 13 years of Conservative rule and to identify the hopes and fears of the voters in the 1990s. This is his first report from the west coast of Scotland.

Landscape that will shape the general election

Ashley Ashwood

Many Skye residents became more prosperous in the 1980s: the election will test whether Mrs Thatcher inspired an enduring revolution

TOM McEache yelled into the wind from the dripping deck of the ferry Loch Fyne as it crossed the sea to Skye, an island off the west Highlands of Scotland: "They won't be naming anything after Thatcher up here. But *there's a farmer near Drum*nadrochit with an old nag called Maggie."

McEache, a van driver on the road from Inverness to Portree, the pocket-capital of Scotland's "misty isle", filled the five-minute crossing between Kyle of Lochalsh and Kyleakin with language calculated to curl the former prime minister's coiffure.

He recalls hearing the radio announcement that she was being made redundant: "I swear I nearly put the truck in Loch Ness."

Alex Finlayson, a hotel worker *en route to see* Dunvegan Castle – seat of the Clan Macleod – added a touch of local knowledge: "Not many people know she crawled out of Loch Ness in the first place."

McEache and Finlayson would not have helped Margaret Thatcher win her fourth term.

But she could have counted on Roderick Fraser, a salesman from Oban nursing a badly dented Sierra. The Plock of Kyle disappeared into the mist behind him: "She bit Britain in the bum. Now we're going back to sleep."

Passengers on the Loch Fyne, along with the rest of the electorate, were denied by faint-hearted Tory MPs the *opportunity to give their* ballot-box verdict on the woman who tried to change Britain.

But in spite of Mrs Thatcher's ruthless removal and the subsequent Tory enthusiasm for resetting the political clock at zero, the general election contest ahead will be fought on a political landscape of which she remains the principal architect.

Many of the issues over which the combatants will clash are those that she identified as worthy of her reforming zeal; much of the battle-ground they cover in the weeks ahead will centre on her successes and failures.

The election will test whether Mrs Thatcher inspired an enduring revolution in attitudes and aspirations upon which John Major, successfully distanced from her more strident postures, can now build a *fourth successive Conservative* election victory, even at a time of deep recession.

Residents on Skye, first port of call on a journey through Britain to test the nation's mood as decision-day approaches, accept that the 1980s brought big changes to a remote corner of the kingdom.

The majority of the residents have grown more prosperous but are reluctant to give credit *to southern,* Tory values or to anything else emanating from Westminster.

Caledonian MacBrayne's ferry service is itself witness to change. The summertime flow of traffic between the mainland and the island now means long, impatient queues and occasional roadside punch-ups.

The solution is to build Scotland's first privately-financed toll bridge, a £23m project which will render Skye a less magical, if more readily accessible, place.

Most islanders want the bridge. But they are angry at plans for very high toll fees which, they claim, have the finger-prints of Thatcherism all over them.

Just as privately-financed public bridges may have been unthinkable 10 years ago, so was European finance for the local roads. But now they have been improved with the help of welcome cash from the European Community. In the 1975 referendum the islanders told Brussels to get lost; now the EC emblem lines the road to Broadford, which broods quietly under the great domes of the Red Hills.

George Forsyth, a sprightly pensioner, gives directions to Elgol, the hamlet on Loch Scavaig where the Bonnie Prince left for the mainland. He accepts a short lift: "We can have the bridge but only if we pay for it ourselves over 25 years. What's the point in cutting taxes if we have to cough up extra for things the government should provide?

"Who wants lower income tax if it means Portree has to wait eight years for a new high school? It's about time we got back to talking about the common good and heard less about personal gain."

Personal enrichment for most British people during the 1980s was drawn from the deepening pool of home ownership, the ripples of which reached as far as Skye.

There are plenty of pensioners like Forsyth on the island, many of them immigrants from England who exploited escalating property values to resettle where £65,000 can buy a stone-built home with dramatic views of the bald, black Cuillin Hills.

Harry and Olive Jackson from Chester share a sandwich on the chilly shore of Loch Sligachan and wait for the Raasay ferry. Olive regards the *spread of home ownership* – up from 55 per cent in 1979 to 67 per cent now – as a permanent achievement of Mrs Thatcher's.

"People used to be trapped. But we bought our council house, moved to something nicer and can now afford to retire up here. She made that possible and she'll always be welcome in my house."

There is, however, another side to the influx of comfortably-off newcomers who have settled in spots like Glendale, dubbed "little England" and boasting views across Loch Pooltiel to the outer isles. *It is* best illustrated by the drab caravan parks which are home for those without permanent foundations under their feet.

Along with the Jacksons, many tenants on Skye bought their homes during the last decade – some of the 1m British *families who did so. But* the supply of replacement properties is very limited and waiting lists have grown.

Ian McCormack, campaigning editor of the West Highland Free Press, with its adverts for winkle pickers and Gaelic-speaking childminders, says the local housing situation reflects a wider, political complaint: "Some undoubtedly have done very well for themselves, *but at what cost to the* others?

"There is a flurry of homeless cases in the spring when landlords repossess properties to rent out to holidaymakers. Those thrown out try and find a caravan or may have to leave the island altogether."

He *reckons* the island's revived prowess at shinty – a demonic form of hockey for which the wise don helmets and face-guards – is because youngsters remain on Skye because there is no work available on the mainland.

Jim Hunter, a historian who *lives in a modernised crofters'* cottage above the road to Flora MacDonald's grave, challenges the image of continuing decline and lack of employment: "Since the 1840s, the island's population has fallen. But the trend has been reversed and there are more jobs. *Pride and self-confidence* has grown, reviving interest in local culture and language."

Hunter is not alone in identifying an upsurge in local enterprise on an island where every croft arguably represents the perfect working model of self-help. "There is less dependency and more self-motivation," he says.

In another snug crofters' cottage, flanked by a couple of *inquisitive dogs,* George Campbell, director of the Scottish Crofters' Union, says the mechanisms and agencies for stimulating enterprise have improved.

He believes living standards have risen but, despite national consumer debt standing three-and-a-half times higher than a decade ago, says islanders have ignored the siren voices calling upon them to borrow more.

It is, perhaps, the same presbyterian streak which has led most crofters, despite their anger, to pay their poll tax.

But he is concerned by what he sees as the steady erosion of community spirit in a place with only 9,000 permanent residents: "The collectivist approach is waning. People have become more individualistic."

Even so, the institutions of *community life on* Skye are jealously guarded. Plans for just one private bed at the McKinnon Memorial Hospital in Broadford were ditched following a right old "stushie" which reverberated from Score Bay to the Aird of Sleat.

Jim Ross, a coach driver leaving *Skye on the* Loch Fyne, volunteers: "Most of us are born in hospital and most of us die there. The NHS is ours and not for politicians of any party to play around with. Labour won't slice it away, though I don't see them being able to spend much more on it."

In Glasgow, beyond a slush-covered Glencoe, the Herald's front page reports the gathering storm on proposed trust status for some of Scotland's finest hospitals.

But in The Curlers pub along the busy Byres Road, talk is of *the Rangers v St Mirren match* at Ibrox and of players with doubtful gaelic names like Kuznetsov and Mikhailichenko.

Mrs Thatcher, of course, even made her mark on football. Joe Gillespie, a fireman in need of a pint after Saturday morning shopping, says her *attitude to the sport* was symbolic.

"I think she despised all sorts of people she knew nothing about and wasn't interested in. She branded all football fans as louts, in the same way she saw the poor as lazy spongers who needed a kick up the ass. Got one herself in the end, didn't she?"

The rest of the series will appear throughout the week

Tories refuse to rule out rise in borrowing

By Ivo Dawnay and Emma Tucker

THE GOVERNMENT refused yesterday to rule out an increase in borrowing to finance pre-election tax cuts as opposition parties stepped up their claims that the Conservatives are planning an "irresponsible" give-away Budget.

Mr David Mellor, a treasury minister, insisted that the government intended to "bear down hard on public expenditure".

But when asked if the government would raise the public sector borrowing requirement above the levels needed to compensate for the recession, Mr Mellor evaded giving a direct reply.

Emphasising that the government remained determined to balance the budget over the economic cycle, he said: "You have to take a judgment as to what is in the best interests of the country."

His cautious reply was clearly intended to calm fears on the Tory right of an imprudent budget package, while *still leaving open the possibil*ity of tax cuts.

It came after Mr Kenneth Clarke, the education secretary, gave the clearest indication yet of an April 9 poll. He said on television: "We have now reached the stage where you begin to clear the decks and the government comes out firing its guns and starts campaigning."

With the Tories on the defensive over their tax and borrowing plans, opposition parties *were yesterday stepping up* their charges that the Conservatives are planning to "bribe" the electorate.

Mr Roy Hattersley, Labour's deputy leader, claimed that he had received confirmation from Treasury contacts that a newspaper report claiming Mr Norman Lamont, the chancellor of the exchequer, had been warned of a possible £30bn PSBR was correct.

"I now have no doubt that *the government is embarking* on an all or nothing gamble – nothing to help the economy – and all they care about is the general election," he said.

In a separate development, Mr Neil Kinnock, the Labour leader, wrote to Mr John Major to claim the prime minister had misled the House of Commons by inaccurately saying British growth had exceeded that of Germany between 1981 and 1991, when, in fact, it was below average.

As speculation raged over the scale of the expected tax cuts, it also appeared that the Tories have now maximised their room for manoeuvre. One party official suggested last *night that the Treasury might* be intentionally talking up the PSBR figure to allow Mr Norman Lamont, the chancellor, to cut taxes but also appear prudent on budget day.

Similar comments have led some observers to speculate that the budget package will *also include some* measures to relieve recession-hit industry. A time-limited rise in tax breaks for investment may also be backed up by concessions for small businesses including Value Added Tax relief and reductions in the uniform business rate.

Such moves would *allow the* Tories to say that they had "stolen Labour's clothes" though opposition strategists said Labour would point out that the measures should have been taken a year ago.

The government's deficit for the current financial year is likely to reach £12bn. Economic growth of less than one per cent this year would cause the PSBR to rise substantially in fiscal 1992-93. But City forecasts which allow *for* some tax cuts in the budget are currently averaging less than £25bn.

Britain will become "the treadmill of Europe" unless working hours are reduced in line with those proposed by other members of the EC, the Low Pay Unit, an independent research organisation, said today. *According to the most* recent international comparison British men worked longer hours than those worked anywhere in Europe.

TUC plans to cut staff in face of declining union membership

By Michael Smith, Labour Correspondent

THE Trades Union Congress is planning to cut staff numbers by up to a fifth as part of a *package of cost-cutting* measures forced on it by a steep decline in union members.

Proposals in a confidential document include the implementation for the first time of a programme for early retirement and voluntary severance among the 250-strong staff.

Mr Norman Willis, TUC general secretary, says in the paper to be discussed by union leaders today that there could be a deficit of more than £500,000 this year, against a targeted surplus of £500,000, unless action is taken.

The *document* provides a graphic example of how the TUC and its affiliates are struggling to cope with growing membership losses on top of *the 4m recorded since 1979,* when they had a combined total of more than 12m.

The planned staff cuts would be the second in two years. In the first programme, about 30 employees were cut through natural wastage from a total staff of 280, the highest number ever.

Mr Willis wants to trim the paybill of about £2.5m by 20 per cent. He suggests a reduction in the number of staff and departments as well as a revised structure for senior posts.

The plans were drawn up after a confidential survey of TUC affiliates' memberships.

Although Mr Willis does not reveal the results in his report, two unions – the AEU engineers and FTAT furniture workers – have each admitted a 10 per cent decline during the past year and other *unions* are likely to be similarly affected.

The TUC will suffer because the amount each affiliate pays to it each year is based on its membership. This year the affiliation fee for each member is £1.23.

Mr Willis says the problems follow accumulated deficits since 1989 in the administration fund, used to run the TUC, of £1.165m. This has come from reserves which *currently* stand at £3.28m.

Companies give boost to party funds

By Our Industrial Staff

THE CONSERVATIVE party has raised more funds in the past 12 months than in any previous pre-election year, according to Central Office officials.

The party does not disclose total funds nor their source, but a survey by the Financial Times revealed contributions from business supporters have remained virtually unchanged in the face of severe recession.

The survey of 40 top corporate contributors to the party found that they contributed £1.345m last year, down only £36,000 from 1990.

Most companies are planning to maintain or increase their payments this year, providing the Tory party with a steady flow of contributions to underpin its election effort.

Party coffers have also been swelled by some large, personal contributions.

MANAGEMENT

Japanese companies are for the first time seeing a rise in worker-power. **Steven Butler** investigates how executives are coping

Looking west for inspiration

Japanese management is facing a serious challenge. An acute shortage of labour is edging the balance of power toward employees. Working hours are going down, job hopping is on the rise, and big companies are having to hire mid-career employees.

These may be common trends in the west. But this is Japan, where lifetime employment at large companies has traditionally given Japanese executives unusual flexibility to manage their businesses.

It has been a critical ingredient in the world-beating success of Japanese corporations. Yet this critical ingredient is coming under pressure.

"Eventually the system of lifetime employment will be destroyed," predicts Akira Ono, an economist at Hitotsubashi University.

Lifetime employment was a two-way contract, at least in theory. Companies guaranteed security of employment, while employees gave back loyalty and commitment, even to the point of accepting wage cuts during hard times and giving up holiday entitlements.

Can Japanese companies continue to excel without it? This is more than a speculative question. Toyota Motor, Japan's biggest car maker, slashed production by 150,000 vehicles this fiscal year because it kept a promise to employees to cut 100 hours from the annual work load of 2,300 hours.

It was unable to hire enough workers to make up the difference. Conveniently, demand for cars has also slumped.

Toyota had no realistic choice but to cut working hours. Otherwise it would have had even more trouble retaining and hiring workers. Toyota – and other big manufacturers – are being forced to think about management in a way that never appeared necessary in the past, when they managed the workforce pretty much as they liked.

Daiken Trade and Industry, a fibreboard maker, has just announced a "New Personnel System" that includes fast-track promotion for capable employees.

Kazuhiro Izumi, personnel manager, says the company needed to overhaul the promotion system or risk losing talented employees. "People want to be told what their potential is and they want to know where their skills fit into the company's plans," Izumi says.

Yet the system upsets another of the "rules" of Japanese management: that harmony should be maintained by basing all promotions on seniority. Daiken managers are now fielding complaints from long-serving workers who are left behind by fast-trackers.

Rising affluence combined with greater choice afforded to job seekers has also changed attitudes, making motivation of the workforce a new problem. Toshihiro Takahashi, general manager of human resources at Toyota, says: "The young generation does not see the value of manufacturing, does not see what it means to the country as a whole".

Yoshio Higuchi, an economist at Keio University, is concerned about the impact of the labour shortage on in-company training programmes, which are effectively the only places for Japanese workers to get practical training. "If the job separation rate gets higher, then on-the-job-training doesn't work."

He fears companies will not get a sufficient return on investment in training if employees are hired away after finishing an in-house programme.

Masamichi Shimizu, general affairs manager of the Japan Management Association, says that Japanese management style is rigid in dealing with individual workers' needs, and that changes in the work environment prompted by the labour shortage will highlight that rigidity. "There are many admirable managers in Japan, but if the working environment continues in the present direction, what westerners regard as Japanese management style may not be appropriate," Shimizu says.

Japan's birth rate is falling, with the average number of children born to a women at 1.53 in 1990, far below the 2.1 needed to maintain a stable population. School graduates will peak next year at 1.23m and decline relentlessly to 960,000 by the turn of the century.

Roughly twice as many new jobs are on offer as there are applicants, a ratio that has declined only marginally as a result of Japan's economic slowdown.

Big employers like Toyota and Nissan have for several years filled vacancies by hiring mid-career employees, unheard of in the past.

About 9 per cent of Japanese workers are changing jobs each year. This is an historic high, and compares with a ratio that has fluctuated between 8 per cent and 6.5 per cent in the past 15 years. The job hopping rate for technical and professional employees has risen steadily over the period.

These trends can only become more severe in the years ahead. At least as far as the workers go, the trends are positive.

Ono says: "The labour shortage has given workers a good opportunity to put an end to unreasonable practices".

Men often work for extended periods, separated from families, because they have to accept orders to work anywhere in Japan. Workers are unable to say no when the boss asks them to do overtime, or give up the annual holiday.

Shigehiro Murakami, of Nippon Gasket, a supplier of parts to Toyota Motor, says the lifetime employment system was a product of post-war poverty, not the choice of workers.

"The security that lifetime employment offered was a great attraction for people afraid of the poverty that went with unemployment. Now, instead of 10 people fighting for one job, young people have a choice of jobs," he says.

Employers are competing among themselves to offer better recreational and housing facilities and are investing heavily in plant and equipment aimed at making work easier and more pleasant.

The new power of the employee has changed the chemistry of management relations within the corporation.

Koji Matsumoto, a former official at the Ministry of International Trade and Industry, argued in a recently translated book* that lifetime employment and the relative powerlessness of employees were key pillars of the Japanese corporate system.

The mere knowledge by company employees that they have the option of changing jobs could erode this atmosphere of trust and prevent a company from pulling together to see the way through bad times.

It is plainly too early to predict the downfall of the Japanese corporate system. Yet life at the top is already becoming more difficult for Japanese managers.

Just as western managers have found inspiration in Japanese success, western models may soon have far more relevance in Japan.

Koji Matsumoto, The Rise of the Japanese Corporate System, translated by Thomas I Elliott, Kegan Paul International, 1991, £45.

Hit for six by a demanding Swedish mistress

Andrew Baxter reports on how a British factory tried to scramble out from the bottom of the heap

That day in October 1990 was one of the worst in Roddy MacLeod's life. He learnt that his British factory was hopelessly inefficient and unproductive compared with its continental European counterparts.

MacLeod runs the British arm of Esab, the Swedish welding products manufacturer, which two years ago decided to rank all its European plants in terms of productivity. The British factory, based in Waltham Cross, Hertfordshire, came last of six on all counts – including costs per hour and output per hour – and was getting worse.

With overcapacity in the industry, it was not certain that Esab needed six factories, putting the very existance of the plant in doubt. The way to recovery has involved some painful decisions, but the experience shows how a factory, when threatened, can be mobilised to come to terms with a problem.

The Waltham Cross plant is Esab's main UK factory, accounting for about half its £50m UK sales. It has been making electrodes since the 1930s and as factories go, it is not a pretty site. These days it is a high-speed operation where traditional methods can occasionally be glimpsed amid the serried ranks of wire drawing machines. For some products, cakes of paste used as the outer coating of electrodes are thrown together by hand.

The plant was bought from BOC in 1983 when Esab was snapping up welding businesses from multinationals as diverse as Philips and GKN. After rationalisation in the mid-1980s, it had three good years from 1987 to 1989 before coming a cropper over new technology.

A new Japanese machine was installed to automate the manufacture of slugs of paste which coat the electrode. Unfortunately, the executive behind the decision failed to pass on his vision to colleagues. To maintain production, Esab was forced to use the machine before anyone on the shopfloor understood it. It ended up continually going wrong, and increasing, rather than saving costs.

Although it contributed to the relatively poor financial performance, the episode was a blessing in disguise. The lesson it taught management about communication would prepare it for a wider battle ahead for the future of the factory.

The first thing to be done was to improve communication with the workforce of nearly 300. This began very much as a one-way process, when the facts about the factory's performance were laid bare at large meetings with employees.

The aim was to ensure, as current management jargon puts it, that everyone at the plant "owned" the problem. But the meetings also coincided with the UK's entry into the ERM, and MacLeod was keen to offset media euphoria about lower interest rates with a few home thoughts on the discipline imposed by stable exchange rates.

"In November 1990, two-way communication began through a series of 35 small meetings with eight to 10 employees each. Their were four key questions on the agenda:

- How can individuals improve their performance?
- How can my department perform better?
- How can our department help others?
- What can other departments do to help us?

The deluge of suggestions on the last point indicated how little thought had hitherto been given to such questions.

Helped by a favourable wage settlement and more flexible working arrangements, such as staggered tea and lunch breaks, the factory began to show vague signs of improved performance in early 1991.

A longer-term plan was developed based on reducing costs while maintaining employees' commitment. MacLeod, perhaps fortunately, was not to know until March that head office in Gothenburg was looking closely at capacity issues, with initial calculations pointing to the closure of Waltham Cross.

But the plant was reprieved by virtue of the changes already made and the confidence that improvements would continue. A succession of measures throughout 1991 maintained this momentum.

The need for more efficiency and the impact of the recession produced two rounds of early retirements and redundancies, reducing the workforce by 50. In June, head office approval for a second new production line sealed the future, but this time proper training was given, and a less automated, more flexible technique used to allow small-batch production and thus increase responsiveness to customer's needs.

By October, a second meeting of the six factories' production managers revealed that Waltham Cross was now fourth best.

Last month, the 180 remaining employees at Waltham Cross learnt that the plant had swung from a £500,000 loss in 1990 to a £1.01m profit last year, despite lower volumes which dented profits by £800,000.

MacLeod's target now is to be second in the Esab league this year and to challenge the German plant for the top spot next year.

THE WEEK AHEAD

ECONOMICS

View on world slowdown awaited

THE DEGREE to which the world economy faces a slowdown this year will be indicated in a rash of economic figures published over the next few days.

One of the highlights for statistical aficionados will be the revised figures on Friday for growth of US gross domestic product in the final quarter of last year, measured on an annual basis. Financial markets are looking for a figure of around 0.7 per cent, indicating that the much-flagged US recovery may be under way.

Meanwhile, the apparent slowdown in the Japanese economy has provided shivers of apprehension to onlookers who have become accustomed to Japan acting as an engine of world expansion.

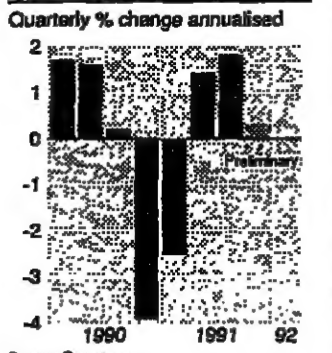
Analysts believe Japanese industrial production in January, to be announced on Wednesday, will have shown virtually no change on the month before, signifying a difficult period ahead for the economy.

In the UK, the only economic indicator of note will be released on Thursday, when the government publishes details of last month's current account deficit. This is expected to be slightly higher than December's figure of £688m.

Other data from France, Germany and Italy are likely to indicate the poor conditions for growth that are apparent in these nations, adding to the shroud which hangs over the world economic outlook.

US GDP

Quarterly % change annualised



Source: Datastream

Highlights of the week are as follows. The figures in brackets are forecasts, provided by MMS, a business information company.

Today: US, January Treasury Budget (deficit of $12bn); France, fourth-quarter GDP growth (0.2 per cent on previous quarter); New Zealand, January trade surplus (NZ$100m); Canada, December wholesale trade (up 0.1 per cent on month), department store sales (up 0.2 per cent).

Tomorrow: US, Federal Reserve chairman Alan Greenspan in testimony to Senate banking committee, January home sales, February index of consumer confidence (51.5 per cent), car sales for period February 11-20; France, January trade deficit (FFr3bn).

Wednesday: US, January durable goods orders (up 1 per cent on month) and shipments; UK, January building society net new commitments (£2.5bn), quarterly review from National Institute of Economic and Social Research; Japan, January retail sales (up 2.3 per cent on year) and industrial production (no change on month); Australia, December manufacturing output and input price index, January vehicle registrations (up 1.4 per cent on month); Canada, January industrial product price index, (up 0.2 per cent on month).

Thursday: US, Treasury secretary Nicholas Brady speaks to Senate banking committee, January export and import price indices, money supply data for week ending February 17 (M1 growth of $5.5bn, M2 – $4.8bn, M3 – $9bn), jobless claims for week ending February 15 (450,000); UK, January visible trade deficit (£750m) and current account deficit (£450m); France, January consumer price index, (up 0.3 per cent on month, 3 per cent on year); Japan, December spending by consumers, and personal income growth; Australia, December manufacturing output; Canada, December earnings (up 4.8 per cent on year).

Friday: US, fourth-quarter GDP growth (up 0.7 per cent over year, on basis of quarter-on-quarter change), fourth-quarter GDP deflator (1.7 per cent), February agriculture prices, January bank credit and commercial and industrial loans; Japan, January trade surplus ($6.5bn), January foreign bond investment, February consumer price indices (for Tokyo alone, up 2.4 per cent on year, both with and without perishables; for whole country, up 2 per cent on year with perishables and 2.3 per cent without these items), January construction orders (down 10.9 per cent on year) and housing starts (down 20 per cent) and construction starts (down 10.3 per cent); Canada, fourth-quarter GDP increase (up 0.8 per cent on annualised basis).

During the week: Germany, January import prices (down 0.3 per cent on month, 2.8 per cent on year), February cost of living index (up 0.4 per cent on month, 4.2 per cent on year); Switzerland, consumer price indices; Italy, consumer price index for February (up 0.8 per cent on month, 6.1 per cent on year), January trade deficit and hourly wages; France, January unemployment rate (9.9 per cent).

Peter Marsh

RESULTS DUE

UNILEVER, the consumer products group, reports tomorrow its fourth-quarter and full-year figures. With the US poised uncertainly between recession and recovery, the UK economy still in the doldrums and growth petering out in continental Europe, the results will depend on Unilever's success in cutting costs to improve margins.

Analysts' forecasts for full-year pre-tax profits range from £1.8bn to £1.84bn, a modest increase on 1990's £1.78bn. Much of the difference between the forecasts is due to assumptions about how Unilever will allocate extraordinary charges incurred during the year.

British Gas will report results for the 12 months to December 31 on Thursday. This year the company is changing its accounting year-end from March 31 to December 31, so it will also supply a figure for the nine months to December 31. Most analysts expect profit before tax for the year to December to be between £1.24bn and £1.28bn. British Gas has already indicated it will announce a full-year dividend of 6p.

The City will be most interested in finding out about the company's talks with the Office of Fair Trading (OFT) over OFT proposals to halve British Gas's industrial market and hand its pipeline business to another company. British Gas has so far resisted the OFT's proposals and is being threatened with a referral to the Monopolies and Mergers Commission (MMC).

UK insurers are bracing themselves to report some of the worst-ever results in the history of the industry next week. Two composites (general and life companies) – Commercial Union and Royal Insurance – report next week. Both will post losses for 1991. CU, which reports on Wednesday, will do best with a loss restricted to between £60m and £70m compared with a pre-tax profit of £1.4m last year. Royal Insurance, which reports on Thursday, has been devastated by losses from mortgage indemnity claims and could see its losses rise to between £270m and £310m, up from £187m in 1990.

SmithKline Beecham, the Anglo-American pharmaceuticals and consumer products group, reports its full-year results tomorrow. Analysts expect the company will for the first time make a £1bn profit compared with £860m last year.

Analysts will be looking carefully at the growth rate of SmithKline's pharmaceuticals sales which have been slower than some of its rivals. In particular, they will be looking carefully at revenues from Kytril, SmithKline's treatment for nausea in cancer patients. It competes directly with Glaxo's Zofran.

ICI, the chemicals giant, reports its full-year results on Thursday and is expected to announce pre-tax profits of about £835m. The figures are unlikely to demonstrate any sign of an upturn in demand for commodity chemicals. Attention will be focused on the pharmaceuticals division (about 70 per cent of group profit) and progress of the company's rationalisation programme. The final dividend is expected to be kept at 34p.

Williams Holdings, the industrial conglomerate, is expected on Thursday to announce increased pre-tax profits of about £170m (£126m) for the year to December 1991.

The increase was mainly due to last year's acquisition of Yale & Valor, the locks and domestic appliances group. After its recently failed hostile bid for Racal Electronics the group is aiming to increase profits from organic growth and agreed takeovers.

UK COMPANIES

TODAY

COMPANY MEETINGS:
Dewhurst, Melbourne Works, Inverness Road, Hounslow, Middx., 11.00
Wheway, The Brewery, Chiswell Street, E.C., 11.30

BOARD MEETINGS:
Finals:
Berkeley Govett
Capita
Hewitt
Low & Bonar
TR High Inc. Trust
Vickers

TOMORROW

COMPANY MEETINGS:
Archimedes Inv. Trust, Garrard House, 31-45, Gresham Street, E.C., 12.30
Electronic Data Processing, Tapton Masonic Hall, Shore Lane, Sheffield, 12.00
Gestetner Hldgs., Hyde Park Hotel, 66, Knightsbridge, S.W., 10.00
Grand Metropolitan, Grosvenor House Hotel, Park Lane, W., 11.00
London & Clydeside Hldgs., 1, Park Quadrant, Glasgow, 12.00
Macarthy, Barber-Surgeons Hall, Monkwell Square, Wood Street, E.C., 12.00

BOARD MEETINGS:
Finals:
Kalon
London Forfaiting
SmithKline Beecham
Interims:
Murray Inc. Trust
River & Merc. Smaller Co's Trust
TR European Growth

WEDNESDAY FEBRUARY 26

COMPANY MEETINGS:
First National Finance Corp., Barber-Surgeons Hall, Monkwell Square, Wood Street, E.C., 12.00
M & W, Ibis Hotel, 1, West Quay Road, Southampton, 11.00

BOARD MEETINGS:
Finals:
Barclays Bank
Commercial Union
Dunedin Inc. Growth Inv.
Grosvenor Devel. Capital
Kleinwort Benson
Interims:
Butte Mining

THURSDAY FEBRUARY 27

COMPANY MEETINGS:
Chiltern Radio, National Farmers Union, 55, Goldington Road, Bedford, 10.00
Midlands Radio, National Motorcycle Museum, Coventry Road, Solihull, West Midlands, 12.00
PWS Hldgs., 52, Minories, E.C., 12.00
Pacific Horizon Inv. Trust, Knightsbridge House, 197, Knightsbridge, S.W., 10.00
RCO Hldgs., 20, Old Bailey, E.C., 3.00
Sheriff Hldgs., Wilford Industrial Estate, Ruddington Lane, Nottingham, 2.30

BOARD MEETINGS:
Finals:
British Gas
Cluff Res.
County Smaller Co's Inv.
Courtaulds Textiles
Foreign & Colonial Inv.
Grafton
Green Property
ICI
Kleen-E-Ze
McAlpine (Alfred)
Murray Intl.
Royal Insurance
Williams Hldgs.
Interims:
Bellwinch
Eleco
Isotron
Macro 4
Whinney Mackay-Lewis

FRIDAY FEBRUARY 28

COMPANY MEETINGS:
Alexanders Hldgs., Caledonian Hotel, Princes Street, Edinburgh, 12.00
Chrysalis, Kensington Hilton, 179-199, Holland Park Avenue, W., 10.30
Plateau Mining, Bridge House Hotel, Reigate Hill, Reigate, 10.30
Richards, Broadford Works, Maberly Street, Aberdeen, 10.00
Star Computer, 2, The Boulevard, Blackmoor Lane, Watford, 10.00

BOARD MEETINGS:
Finals:
Capital & Counties
Craton Lodge & Knight
Merlin Int. Green Inv.
Mersey Docks & Harbour
Sedgwick
Interims:
Goodwin
Hong Kong Inv. Trust
Smith New Court

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

TODAY

Andrews Sykes 1.4p
Argyll 3.2p
Bradford Prop. Tst. 7% Un. Ln. 1992/97 3½pc.
Bulmer (HP) 2.45p
Barton 8% Cv. Un. Ln. 1996/2001 4pc.
Commonwealth Bank of Australia Und. Flg. Rate Nts. Exch. to Dated Flg. Rate Nts. $303.41
DAS Invs. 23cts.
M & G Dual Tst. 38.66p
New Zealand Flg. Rate Nts. 1997 £136.85
Royal Bank of Canada 20cts.
Standard Chartered Sub. Flg. Rate Nts. 1996 £139.33
Triplex Lloyd 2.5p
Welsh Water 7.13p
Woolwich Bldg. Society Flg. Rate Ln. Nts. 1992 £279.30

TOMORROW

Allied-Lyons 10⅝% Bd. 1999 £177.08
Aluminium Co. of Amer. 40cts.
Control Techniques 4.3p
Daikin Inds. 6.35% Bd. 1995 Y159750.0
Debenham Tewson & C. 1p
Eaton Corp. 55cts.
Exchequer 12¼% 1992 6⅛pc.
Gartmore Scottish Inv. 2.8p
London & Clydeside 5.2p
New Throgmorton Tst. 1.5p
Nippon Sanso 6.4% Nts. 1997 3.2pc.
Do. 6.4% Nts. 2000 3.2pc.
RHM 8½% Un. Ln. 1990/94 4¼pc.
Do. 8⅞% Un. Ln. 1991/95 4⁷⁄₁₆pc.
Shelton (Martin) 0.75p
TSB Gilt Fd. Ptg. Rd. Pf. (Class B) 0.8333p

WEDNESDAY FEBRUARY 26

Gold Fields Prop. 32cts.
Lloyds Eurofinance Gtd. Flg. Rate Nts. 1995 £136.89
Merrill Lynch 25cts.
New Wits 17cts.
Royal Bank of Scotland 6p
Treasury 10% 2001 5pc.
Vogels Metal 35cts.

THURSDAY FEBRUARY 27

Bank of Montreal 53cts.
British Land 2.07p
Burtonwood Brewery 0.7p
Dale 6.375% Bd. 2000 3⅛pc.
Do. 6.4% Bd. 2002 Y160000.0
Merchants Tst. 2.5p
Treasury 9¾% 2002 4⅞pc.
Zetters 4p

FRIDAY FEBRUARY 28

Allied-Lyons 6.65p
Allnatt London Props. 10½% 1st Mtg. Db. 1994/99 5¼pc.
Archer (AJ) 1.25p
Avon Rubber 11.5p
Bank of Nova Scotia Flg. Rate Sub. Cap. Db. 2085 $303.47
Bank of Scotland Und. Var. Rate Nts. $151.67
Bankers Inv. Tst. 0.8p
Bass 4% Cm. Pf. 57.5p
Do. 7% Cm. Pf. 100p
Blyvoor Gold Mining 15cts.
British Telecom 5.7p
Bromsgrove Inds. 1.5p
Burmah Castrol 8½% Un. Ln. 1991/96 4¼pc.
Cable & Wireless 4.35p
Cater Allen Equity Growth Ptg. Rd. Pf. 14p
Cater Allen Gilt Inc. Ptg. Rd. Pf. 30p
Cater Allen Gilt & Futures Ptg. Rd. Pf. £40.0
Chase Manhattan Flg. Rate Sub. Nts. 1997 $132.71
Cigna Overseas Fin. 13% Un. Ln. 2008 6½pc.
City of Oxford Inv. 1.2p
Contra-Cyclical Inv. 2.25p
Crean (James) Units 7.865p
Danae Inv. Tst. 3.375p
Derby Tst. 10.0916p
Ecclesiastical Insurance 13% Db. 2018 6½pc.
Electricite de France 12¾% Gtd. Ln. 2008 (Reg) 6⅜pc.
Excalibur 11.5% Cm. Pf. 5.75p
Fine Spinners & Doublers 4% 1st Mtg. Db. Rd. 1.86pc.
First Chicago Overseas Fin. Gtd. Fltg. Rate Sub. Nts. 1994 $132.71
Geared Income Inv. Tst. 2p
Gibbon Lyons 7% Cm. Cv. Rd. Pf. 3.5p
Glasgow Income Tst. 1.4p
Grand Central Inv. 0.45p
Great Western Fin. 22cts.
Greencore 4.5p
Halifax Bldg. Society Fltg. Rate Ln. Nts. 1996 £135.89
Do. (Ser.A) £41.49
Harmony Gold Mining 20cts.
Hill Samuel Fin. Fltg. Rate Nts. 1996 $309.65
Lloyds Bank Prim. Cap. Und. Fltg. Rate Nts. (Ser.2) $305.23
London & Strathclyde Tst. 5% Cm. Pf. 1.75p
Lucas Inds. 6½% 1st Pf. 2.275p
Lynx Hldgs. 0.75p
M & W 1.25p
Manufacturers Hanover Tst. Fltg. Rate Sub. Cap. Nts. 1994 £134.55
Microlec 1.35p
Mitsubishi Bank Fltg. Rate Sub. Ln. Ptgn. Cert. 2000 $1327.08
Morgan Grenfell Und. Prim. Cap. Fltg. Rate Nts. $319.13
Murray Int. Tst. 2.5p
NatWest Bank 7% Cm. Pf. 2.45p
Do. Prim. Cap. Fltg. Rate Nts. (Ser.C) $128.55
Nationwide Anglia Bldg. Society Fltg. Rate Nts. 1995 £269.43
Neotronics Technology 1.72p
Neste Fltg. Rate Nts. 1994 $305.49
Next 7¾% 1st Mtg. Db. 1987/92 3⅞pc.
Oldham Cov. Tst. 4.5p
Parkland Textile 4.2% Cm. Pf. 2.1p
Presidio Oil Class A 2.5cts
Prowting 14.5% Cm. Pf 7.25p
Reject Shop 1.05p
Sage 5.35p
Second Market Inv. 2½% Cv. Un. Ln. 1994 1¼pc.
Security Services 4½% Cm. Pf. 1.575p
Southend Property 1.45p
Sphere Inv. Tst. 1.0575p
Symonds Eng. 0.3p
TMC P.I.M.B.S. Fifth Fin. 6/8/2026 £234.52
TR City of London Tst. 1.19p
Do. (20% Non-Cm) 7p
Do. 8% Non-Cm. 2nd Pf. 2.1p
Do. 6% Cm. 1st Pf. 2.1p
TR Far East Inc. Tst. 7% Db. 1997/2002 3½pc.
TSB Bank Channel Isls. 4.15p
TSB Var. Rate Sub. Nts. 2003 £276.82
Temple Bar Inv. Tst. 6% Cv. Un. Ln. 2002 3pc.
3i 8⅞% Un. Ln. 1992/97 4⁷⁄₁₆pc.
Wells Fargo Fltg. Rate Sub. Nts. 1992 $38.69
Do. Fltg. Rate Sub. Nts. 2000$40.83
Yorkshire Water 6.5p

SATURDAY FEBRUARY 29

Croda Cosmetics 7½% Un. Ln. 1987/92 3¾pc.
Foster (John) 9% Un. Ln. 1988/92 4½pc.
London & St. Lawrence Inv. 5% Cm. Pf. 1.75p
RPH 8% Db. 1992/96 4pc.
Do. 7⅞% Un. Ln. 1987/92 3[illegible]pc.
Do. 9% Un. Ln. 1999/2004 4½pc.
Do. 4½% Un. Ln. 2004/09 2¼pc.

SUNDAY MARCH 1

American General 52cts.
Buffalo & Lake Huron Railway 5½% 1st Mtg. Perp. Bd. 2¾pc.
Do. 2nd Mtg. Perp. Bd. 2¾pc.
Corp. of London 3½% Db. 1983/93 1¾pc.
East Surrey Hldgs. 7% Rd. Db. 1990/92 3½pc.
Do. 7¼% Rd. Db. 1991/93 3⅝pc.
Do. 10% Rd. Db. 1997/99 5pc.
Electric & General Inv. 9% Db. 1989/94 4½pc.
Fleming Claverhouse Inv. 3p
Fleming Mercantile Inv. 3½% Rd. Db. 1990/95 1¾pc.
Halifax Building Society 12% Perm. Int. Bearing £509.59
Ireland (Rep. of) 9¾% 1991/96 4⅞pc.
Jessups Cv. Rd. Pf. 3.85p
London County 3% Cons 1920 (or after) 1½pc.
Do. 2½% Cons 1920 (or after) 1¼pc.
Low & Bonar 6% 1st Cm. Pf. 2.1p
Do. 6% 2nd Cm. Pf. 2.1p
Do. 5½% 3rd Cm. Pf. 1.925p
Metropolitan Water 3% B 1934/2003 1½pc.
Oldham Met. Borough Council 11.25% Rd. 2010 5⅝pc.
P & O 3½% Db. 1¾pc.
Do. 3½% 2nd Db. 1¾pc.
River Plate & Gen. Inv. 5% Cm. Pf. 1.75p
Sainsbury (J.) 8% Irrd. Un. Ln. 4pc.
Schneiders (S.) 6% Cm. Rd. Pf. (2000 or after) 2.1p
Slough Estates Cv. Cm. Rd. Pf. 4.125p
Tarmac 6¾% Db. 1989/94 3⅜pc.
Do. 7½% Db. 1992/97 3¾pc.
Do. 6¾% Db. 1989/94 3⅜pc.
Transcanada Pipelines 16½% 1st Mtg. Pipe Line Bd. 2007 8¼pc.
Treasury 14½% Ln. 1994 7¼pc.
Treasury 8¾% Ln. 1997 4⅜pc.
UCB Films 5.25% Cm. Pf. 2.625p
Utd Mexican States 16½% Ln. 2008 (Br) 8¼pc.
Do. (Reg) 8¼pc.
Witan Inv. 8% Db. 1996/99 4pc.

PARLIAMENTARY DIARY

TODAY

Commons: Motion on the Prevention of Terrorism Act, continuation order. Proceedings on the Parliamentary Corporate Bodies Bill. Opposed private business.

Lords: Education (Schools) Bill, committee. Social Security (mortgage interest payments) Bill, second reading.

Select committee: Public accounts – subject, national savings. Witness: David Butler, Department of National Savings (Room 16, 4.30 pm).

TOMORROW

Commons: Local Government Bill, remaining stages. Motion on the pneumoconiosis (workers' compensation) (payment of claims) (amendment) regulation.

Lords: Bingo Bill, 3rd reading. Charities Bill, 3rd reading. Aggravated Vehicle-taking Bill, report.

Select committee: Social security – subject, operation of pension funds. Witnesses: former trustees of the Mirror Pension Fund.

Trade and Industry – subject, trade with Hong Kong, China and Taiwan. Witnesses: Department of Trade and Industry officials (Room 15, 10.30 am).

WEDNESDAY

Commons: Debate on inflation. Motion on the fire service college trading fund order.

Lords: Debate on the economic, social and cultural opportunities for women. Debate on the economy of the north-west of England. Cheques Bill, second reading. Access to Neighbouring Land Bill, report. Question to government on the abolition of visa requirements for Polish citizens visiting Britain.

Select committees: Trade and Industry – subject, exports to Iraq. Witnesses: Customs and Excise officials (Room 15, 10.30 am).

Welsh affairs – subject, community care. Witness: Nicholas Bennett MP, Welsh Office minister (Room 8, 10.30 am).

Agriculture – subject, trade gap in food and drink. Witnesses: Tim Sainsbury MP, trade minister; John Gummer MP, agriculture minister, David Curry, food minister (grand committee room, Westminster Hall, 10.45 am).

Education – subject, primary schools. Witnesses: Professor Robin Alexander, Leeds University; Chris Woodhead, National Curriculum Council (Room 8, 4.15 pm).

Public Accounts – subject, sale of the water authorities of England and Wales. Witness: Sir Terence Heiser, environment department (Room 15, 4.15 pm).

Transport – subject, preparations for opening the Channel Tunnel. Witnesses: British Rail (Room 16, 4.15 pm).

Foreign affairs – subject, Europe after Maastricht. Witness: Sir Ralf Dahrendorf, St Antony's College, Oxford (Room 18, 4.15 pm).

Home affairs – subject, migration controls at external EC borders. Witnesses: Joint Council for the Welfare of Immigrants; Immigration law practitioners association (Room 5, 4.30 pm).

THURSDAY

Commons: Debate on Welsh affairs.

Lords: Local Government Finance Bill, third reading. London Underground Bill, third reading.

Select committees: European legislation – subject, Portuguese presidency of the EC. Witness: Tristan Garel-Jones MP, foreign office minister (Room 8, 4.30 pm).

Trade and Industry – subject, exports to Iraq. Witnesses: Tim Sainsbury MP, trade minister; Alan Clark MP, defence procurement minister (Room 16, 4.30 pm).

FRIDAY

Commons: Private members' motions.

Lords: Prevention of Terrorism Act, motion for approval. Medicinal Products (nurses prescribing) Bill, 2nd reading. Still-birth (definition) Bill, 2nd reading. Traffic Calming Bill, 2nd reading.

CONSTRUCTION CONTRACTS

£60m work for Lilley companies

LILLEY GROUP has been awarded new orders worth £61m. *Heading the list* is a £16.6m contract for new works on the M74, awarded to Lilley Construction. The project entails constructing 4.5 kilometres of motorway and five bridges, from the M73/M74 Maryville interchange to Fullarton Road on the Glasgow city boundary. Work is due to commence in March and will run for 17 months.

The remainder of the Lilley Group brought in some £43.3m of orders; the Scottish operations, Lilley Construction Scotland and MDW – £11m; Eden Construction – £8.3m; Robison and Davidson – £6.3m; the Midlands operations, Lilley Construction Midlands, Lilley Tunnelling and Piling, the Standen Group and Piper Buildings – £7.4m and the southern operations, Lilley Construction Southern, Henry Jones and the Hatfield Group – £10.3m.

Distribution centre

JOHN SISK & SONS, the UK-based arm of Sicon, has won contracts worth £11.5m. The largest project is a £5.1m produce distribution centre in Worcester for Vangen Services, a subsidiary of Fyffes UK. The 250,000 sq ft centre will distribute produce to Sainsbury's stores in the region.

Sisk has also secured the extension to the television studios and the refurbishment of hospitality suites at the South Bank studios on London's Embankment for LWT.

£12m Yorkshire hotel development scheme

FAIRCLOUGH BUILDING, part of the AMEC Group, has recently been awarded contracts worth £35m in the north of England.

Work has already commenced on a £12m hotel at Oulton Hall, Rothwell, near Leeds for the De Vere Hotels company. Encompassing 139 luxury bedrooms and seven executive suites, together with a conference and banqueting suite and leisure centre, the four-star hotel is being built around a Grade II listed building requiring major restoration. *Completion is anticipated* by spring 1993.

Other contracts include an office development in Runcorn, Cheshire for LCP Developments, valued at £6.8m; a new store in Chester for WH Smith, *valued at £2.8m; and* erection of a regional plastic surgery and burns centre at Whiston Hospital, Liverpool for St Helens and Knowsley Hospitals Trust, valued at £7m.

French heritage project

GILLESPIES, the architectural firm based in Glasgow, has won a contract for the design and implementation of the *£3.5m first phase* of a large themed heritage development in the historic Breton port of Douarnenez, near Brest.

The firm was awarded the contract in a competition organised by the local authority, the Ville de Douarnenez. The proposals were drawn up in co-operation with Mr Jim Philpott, who works for the French architectural practice of Valode et Pistre.

The first phase includes the conversion of a disused warehouse complex to allow the expansion of the existing maritime museum and the refurbishment of a square in front of the museum, creating a site on which a wooden sailing ship is to be constructed.

Gillespies will also be creating a turn of the century street scene in a complex of buildings and vacant sites next to the museum.

This will be done through refurbishment of buildings, resurfacing squares and alleyways, and building houses and workshops on derelict sites.

Retail store in Bristol

Contracts worth over £19m have been awarded to ERNEST IRELAND CONSTRUCTION, a division of John Mowlem Construction.

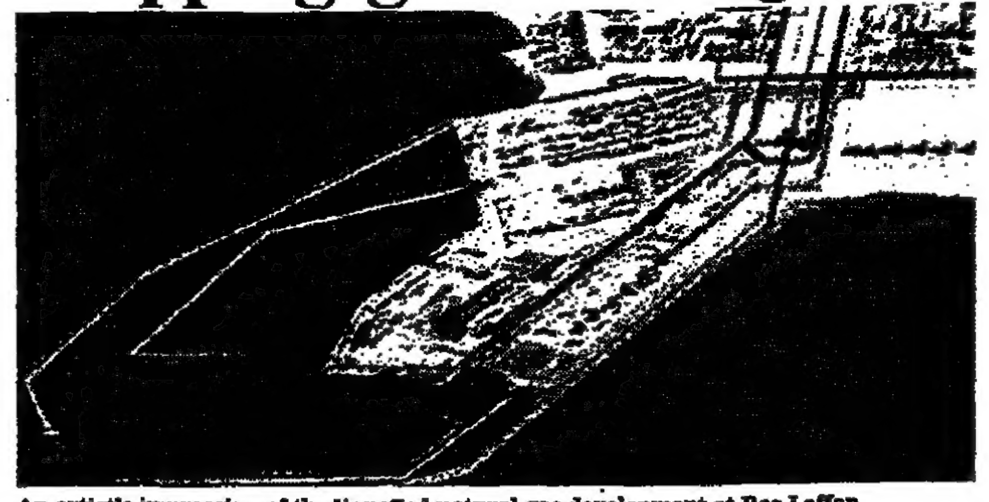
The largest, worth £7.5m, is to build a 65,000 sq ft Sainsbury store in Ashton, Bristol. The steel-framed building with brick block external cladding and tiled pitched roofing will include a reconstructed stone entrance and glazed customer walkways.

The Bristol office has also *started work on* a £3.2m contract for a water treatment plant for Wessex Water at Fulwood, near Taunton. An 80 metre by 30 metre steel-framed construction will house a series of sunken tanks at the heart of the plant to improve the water supply to Taunton and surrounding villages.

The Swindon office is working on a £2.5m contract to build a Tesco store at Didcot in Oxfordshire for London Retail Investments. The 54,000 sq ft *store is being built* around a steel and precast concrete frame with brick block external walls and a tiled pitched roof incorporating false dormas.

Ireland is also working on a *£1.4m contract* at Bowood House Golf Club, near Calne, in Wiltshire for the Estate of the Earl of Shelbourne. Work includes the refurbishment of a farmhouse to create a club house.

Shipping gas from Qatar



An artist's impression of the liquefied natural gas development at Ras Laffan.

LG MOUCHEL & PARTNERS has been appointed by the Qatar General Petroleum Corporation to act as management consultant for the Ras Laffan port project.

This encompasses project *management, design management* and construction supervision of the US$800m (£457m) project, which will be constructed by the Italian contractor, Condotte & Partners Qatar JV.

The Ras Laffan port is being developed to exploit the avail*ability of natural gas from off*shore fields.

The port area, which will extend over eight square kilometres, will contain 15 berths, four for the shipment of liquefied natural gas, six for tankers carrying other liquids, two for container ships, two for *dry bulk material carriers* and a heavy load berth.

Shopping complex in Cardiff

Joint developers BICC Developments and London & Edinburgh Trust have awarded TILBURY DOUGLAS CON*STRUCTION a £19m contract* for the construction of the Queen's Arcade shopping complex in Cardiff.

The 140,000 sq ft scheme will provide a total of 42 unit shops and two larger stores on two levels. It is being built in the centre of the city with frontages on both Queen Street and Working Street, two of Car*diff's busiest shopping areas*. The development will form a natural link between them and the St David's Centre.

The first task will be excavation work for new basements together with the virtual demolition of a building in Queen Street; its listed facade will be retained and incorporated into the new development. Exten*sive piling works* will be a particular feature of the construction phase.

The 104-week project is due for completion in time for the Arcade to begin trading by Easter 1994.

Building bank premises in Chester

NORWEST HOLST has recently won contracts totalling £20m. The largest, a £9.8m contract, will provide office accommodation for National Westminster Bank in Chester. Work on the 58-week contract will involve the construction of a six-storey office building of 8,160 sq metres on piled foundations.

*For PSA Services, St Leo*nards on Sea, Norwest Holst has started work on a £2.9m fitout of two and a half floors of a large government building in Hastings, which will house the Child Support Agency.

For the PSA Services, Croydon, the company is undertaking a £2m contract for fire precaution measures at Building No.5, Old Dalby, Loughborough.

At Flakefleet, Fleetwood, *Norwest Holst* will shortly start work on the construction of 83 dwellings for the North British Housing Association. Under the 64-week contract, valued at over £2.7m, a number of one, two and three-bedroom houses and flats will be constructed including six premises for the disabled.

Norwest Holst Projects has won a £2.25m design and construct contract to demolish part of St Mary's School, Victoria Avenue, Finchley, and replace it with three-storey office accommodation.

Regeneration of former power station property

CONDER PROJECTS, a division of the Winchester-based Conder Group, has been appointed design and build contractor by The Harbour Club for a regeneration project in the heart of London which will transform part of the redundant Fulham power station site.

Built in the 1930s and covering over 12 acres, the power station was decommissioned in the early 1980s and sold by the CEGB.

Much of the land has been used since then for multi-storey apartments, underground car parks and retail outlets. The remaining 2.7 acres is to be transformed into The Harbour Club.

Conder Projects offered a design solution, utilising the existing basement structure to construct 10 indoor and five outdoor tennis courts, a 30 metre swimming pool, restaurant, fitness gymnasium, exercise studios and a health and beauty suite on four floors within the original power station, main boiler house and turbine area.

Total contract value to Conder Projects is £6m and completion is anticipated in December.

Sewage treatment orders

MJ GLEESON GROUP has been awarded contracts worth nearly £9m to extend or upgrade sewage treatment works in Berkshire, Buckinghamshire, Warwickshire and Devon.

The two largest are design-and-construct projects for *Thames Water*. These are a further £5.1m extension to Wargrave STW - where Gleeson and group subsidiary ECL are nearing completion of a £3.75m *project* and a £2m sludge dewatering plant at Maple Lodge STW.

Two additional contracts, each worth *around* £800,000, are for the upgrading of three smaller sewage treatment works for South-West Water and two for Severn Trent Water.

Resort hotel in Oman

WIMPEY ALAWI, part of the international construction group George Wimpey, has secured a £4.5m contract to build a luxury resort hotel in Sohar.

The project, designed to reflect traditional Omani architecture, *must be completed* before November 1 when the hotel plays host to senior national dignitaries.

Wimpey Alawi's work inolves the construction of a *main reception* building, which will house a total of five exclusive guest suites including a presidential type suite. A futher eight accommodation buildings will be built to provide facilities for a total of 60 guests.

The contract includes construction of a swimming pool, service compound and living quarters for *hotel staff*.

University accommodation

New accommodation for 500 Leeds University students is on the cards following the award of a £4.9m contract to LAING YORKSHIRE.

The University has selected the company to design and build 100 five-bedroom flats at Bodington Hall, Otley Road.

The flats will be built in seven blocks constructed in traditional brick with pitched, tiled roofs, timber windows and glazed entrances. The project is due for completion at the end of November.

ARCHITECTURE

A test for taste and political judgment

The debate on the future of London is only just beginning, says **Colin Amery**

Who is on the side of the angels? At this time politicians of all parties would like us to believe that they have hot lines to the Almighty and that the future of the country will be safe with them. When it comes to architecture and the environment there is one body which is supposed to be apolitical in its dealings and that is The Royal Fine Art Commission. It has arranged an exhibition to commemorate the work of the Commission since 1924.

The title of the exhibition, *On the side of the angels?* at least poses the question. From the evidence selected for the exhibition, sometimes the Commission has been on the side of the angels and sometimes it has not. The RFAC inevitably suffers from the heavy presence of architects on its panels who are often unwilling and, when you think about it, unlikely to want to criticise their fellow professionals.

The current chairman of the Commission, Lord St John of Fawsley, seems to have emphasised the "Royal" rather than the "Fine Art" side of the Commission. In his foreword to the exhibition catalogue he lists with positive glee the number of times he has entertained members of the Royal family – speaking of their visits as "unforgettable days". This is no doubt part of his job, but the actual grind of raising standards and awareness is an infinitely more boring and less gracious activity. The Commission has no real powers and so the catalogue of its achievements makes interesting but not crucial reading.

What is far more crucial is the work and thought that are going on in the offices and think tanks of our political parties. If it is true that the environmental and architectural quality of the capital can be seen as a sort of litmus paper – a test for taste and political judgment – then it is worth considering how the parties see London and its future.

In a slightly covert way the Labour party has produced its thoughts on London as a private enterprise Penguin book rather than part of a political manifesto (*A New London* by Richard Rogers and Mark Fisher, Penguin Books, £8.99). It is the second contribution from Mr Fisher, the MP for Stoke on Trent, who also recently edited a series of essays on the state of our cities (*Whose Cities?* edited by Mark Fisher and Ursula Owen, Penguin Books, £5.99). The red rose joins the penguin in promoting Labour's ideas; how long will it be before the rose is firmly held in the penguin's beak?

The Conservative party is preparing its answers about London and to date the most convincing statement of its intentions for the capital remains the lecture arranged by London Weekend Television and given by Michael Heseltine last December, entitled "The Future of London". The evidence of Conservative thinking of the last decade about the capital is, of course, also all around those of us who live in or visit the capital.

By any standards the results of the free market and the political effects of the abolition of the Greater London Council in 1985 are decidedly mixed. The creation of the Enterprise Zone in London's Docklands and the establishment of the London Docklands Development Corporation provide the best visible evidence of Conservative policies for the capital. The results in visual and planning terms, especially if judged as contributions to improving the standards of life for ordinary mortals living in east London, are pretty disastrous.

In their book Richard Rogers and Mark Fisher offer a powerful contribution to the debate about cities. They offer the intriguing scenario of a Europe dominated by what would amount to a series of city states. As national boundaries change overnight and politicians and their followers swing in eastern Europe with the abandonment of monkeys, perhaps the future of civilisation will return to powerful urban fiefdoms run like the old Venetian Republic. The opportunities are certainly there in Berlin, Prague, St Petersburg and Warsaw, not to mention the beautiful old towns of the Baltic that were once part of the Hanseatic League.

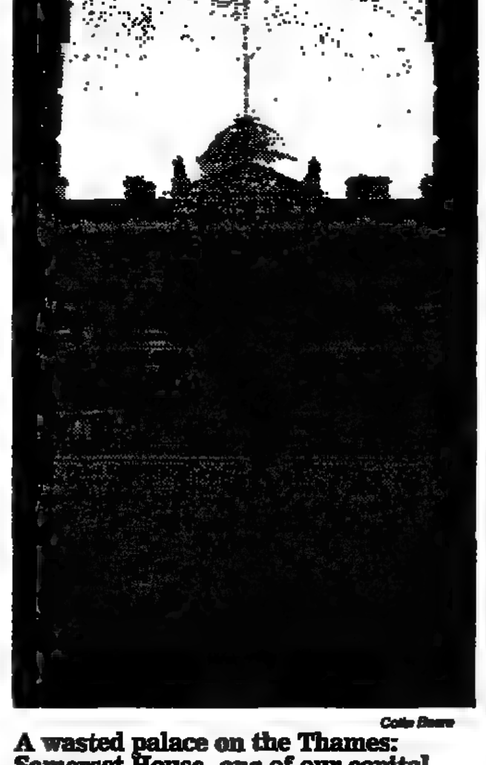
London, however you compare it with other European cities, has a lot to offer. What it lacks at present is any clear vision for its future. Michael Heseltine sees that as a financial centre London is well ahead in Europe, although it lags behind New York and Tokyo. As a civilised city to live in London certainly scores higher than either New York or Tokyo. As an architectural and cultural city London is still outclassed only by Paris.

No one can claim that any of the new developments in Docklands have significantly added to our architectural heritage. Those who praise the American-style Canary Wharf should realise that it offers what should be the basic minimum standards for any commercial development. What is so exceptional about marble and fountains? Londoners should demand them, not be asked to praise them as gifts from god-like developers.

The Rogers/Fisher book and the Heseltine offering both share certain objectives while disagreeing about how to reach them. More attention to be paid to the River Thames? – this is an area where all could agree. New commercial developments to the east of the city? – surely only if the quid pro quo is an incredible improvement in the deplorable housing stock in too many London boroughs. New transport policies? – all agree that these are needed, but who is to pay? A new London government? – is there a place for another GLC that was spending one billion pounds, when it was abolished, on only seven per cent of the capital's services? Again, who is to pay?

One perpetually recurring but relatively minor problem has been the need for a new life for Somerset House, one of the great public buildings in the city yet at present still mainly occupied by civil servants. Heseltine has asked for ideas and a prompt response came last week from a newly formed Somerset House Group. This is a gathering of cultural, educational and business organisations brought together under the auspices of King's College and The Prince of Wales's Institute of Architecture to prepare exciting plans for this wasted palace on the Thames. Their initial offerings for multiple cultural use look promising.

The debate about the future of London is just beginning. The important thing is that the subject is now high on the political and architectural agenda – where it rightly belongs.



Colin Beere

A wasted palace on the Thames: Somerset House, one of our capital city's great public buildings, currently full of civil servants, is in need of a new life

Pelléas et Mélisande

NEW THEATRE, CARDIFF

Welsh National Opera's new production of *Pelléas et Mélisande* has been eagerly awaited, not only as Peter Stein's third staging for the company, following his memorable *Otello* and *Falstaff*, but because it signals Pierre Boulez's return to the opera house 13 years almost to the day after he conducted the premiere of the complete *Lulu* in Paris. At the first night on Friday every ounce of that accumulated expectation seemed triumphantly justified. This *Pelléas* is a glorious achievement, one of those rare operatic occasions that truly justifies the description of revelatory, in which theatrical and musical genius seem democratically balanced and concerned with nothing except the most comprehensive realisation of the work itself.

It should be no surprise that Stein's and Boulez's contributions appear indivisible: as the director makes clear in an essay in the programme book, he was introduced to the work by Boulez, who "deciphered the score for me and showed me all the little details". That freshness, uncluttered by the burden of the opera's performing history, has given Stein the freedom to work outwards from the work itself, to take what the text and music could offer and with his designers Karl-Ernst Hermann (sets) and Moidele Bickel (costumes) to select a coherent set of visual and dramatic references.

Their starting point was the pencil drawings of Seurat; for an opera that moves into daylight for only two scenes, they have created a symbolist world of blacks and greys, of glistening surfaces and profound depths, which meanly rations the available light, striking it harshly against hard edges, squeezing it between trees or through doorways. Such parsimony gives implacable force to the few moments *en plein air*, so that when in the third act Golaud and Pelléas emerge into sunlight from the cellars the audience too is dazzled by its brilliance: we share in their physical exhilaration, touch their awe and relief.

For Stein never forgets that this is a piece of theatre, a deliberate artifice; any suspension of disbelief must be earned, never taken for granted. There is no dream-like easing from reality to make-believe, every change of scene is laid bare and each image is uncompromisingly framed, caught within a precise geometric shape. By parcelling up the stage with sliding panels and half curtains, and providing precisely the space needed for each scene, it offers a constantly shifting perspective, at one moment close, intimate, at the next distant and detached. We are watching make-believe: Goland addresses his opening phrases to the audience, as if the first scene is a preface, a fairy-tale beginning from which everything else unravels. And when she reads her letter in the second scene, Geneviève's gestures are grand and rhetorical, suggesting her audience too is much larger than the blind Arkel.

This is a very strange opera, Stein is saying, in which nothing is what it seems, reality and fantasy are enmeshed and nothing can be explained away as a product of dreamy irrationality. There are stylised trees and cardboard cut-out ramparts, yet a fully detailed bedchamber for the final scene, a real sheep for Yniold's encounter with the shepherd, and real doves (a mistake, this) for the tower duet.

He presents the tragedy through a series of implacable images, creates his characters as lost figures, caught in a struggle for survival. Pelléas, so wonderfully, passionately sung by Neill Archer, is straight out of Edgar Allan Poe, a Roderick Usher right down to his frock coat and breeches; the Mélisande of Alison Hagley is timeless and impermeable, a projection of male images (Arkel's as well as those of her husband and her lover), who is never quite of this world. This Golaud (Donald Maxwell) develops in divergent ways out of his chivalrous stereotype and goes disastrously wrong: jealousy is something eternal, Stein observes, "whether in fairy forests in the middle ages or in your one-room apartment".

All three roles are sung and acted with absolute commitment and authority; their every word is made to tell, every phrase is perfectly weighted. There is also a sonorous Arkel from Kenneth Cox and upright Geneviève from Penelope Walker. The Yniold of Samuel Burkey sings with affecting assurance, so that the scene in which he is forced by Goland to spy upon the lovers is as traumatic as Golaud's later attack upon his wife.

All are given the most magnificent possible support and musical guidance by Boulez, whose command of this score is absolute. His attention to detail and texture has always paid dividends in this opera, and now it is fused with a flexibility and, yes, sensuousness that make this the most compelling and moving account of the opera I have heard, realised by the WNO orchestra with unfailing vividness. The crux of Boulez's approach is now the interludes, where the music opens out, allows in the vistas and images that the tightly focused action proscribes, and in which the ghost of Wagner's *Parsifal* emerges from the shadows.

Already one feels this to be a landmark in the interpretation of Debussy's masterpiece. The production plays in Cardiff for three more performances, before touring in March and April to Southampton, Birmingham and Bristol. It should not be missed by anyone remotely interested in the history of opera in the 20th century or in the ways in which a great conductor and a great director can remake a work through their own creative powers.

Andrew Clements

Alison Hagley, "timeless and impermeable" as Melisande, and Donald Maxwell as Golaud

1953

GLASGOW CITIZENS

The Glasgow Citizens Theatre has just put its own house into new order. Where there was only one theatre, now there are two more. What was the downstairs bar is now the third theatre (seats 70); and an upstairs chamber is now the second (seats 130). And yet the building is far from cramped. Audiences from separate shows mingle beforehand or in the intervals without crush.

The first three plays to run simutaneously at this "new Citz" add up as a bravura gesture of eclecticism: Alonso Alegría's *Niagara* (directed and translated by Robert David MacDonald); Craig Raine's *1953* (a version of Racine's *Andromaque*, directed and designed by Philip Powse); and P.G. Wodehouse's *Summer Lightning* (adapted and directed by Giles Havergal). I shall write later this week on Theatres One and Three; here I talk of the Raine.

Everyone agrees that Racine is the most untranslatable of playwrights; and yet in recent years we have seen several new translations of him performed on British stages, and, even more remarkably, many leading poets in our century have rushed to render him into the English language. Robert Lowell's *Phaedra* is especially famous or, you may say, notorious. And between 1980 and 1990 three of the most celebrated living poets set their highly dissimilar hands at *Andromaque*: Richard Wilbur, Douglas Dunn and Craig Raine. Please note, too, that Dunn's and Raine's were, like John Cairncross's 1966 version (now in Penguin Classics), each first presented by BBC Radio. Raine's was heard there in April 1990; it is said that it was first planned as the text for Jonathan Miller's 1988 Old Vic production. But, as its title shows, Raine's is no straight translation.

The title tells you that *1953* transposes the Greek and Trojan characters of the classical mythology that Racine's audience knew so well into the modern era, and in this Raine follows the example of Tony Harrison, who put *Phèdre* into British India as *Phaedra Britannica*. Racine's Trojans and Greeks are Raine's British and Germans. Raine's 1953, however, is not the actual historical past but the era that might have been. The Führer still rules; the British Empire is extinct; the night when London fell to the Germans is still famous; and, by the by, Churchill had already died – in his own sick, after a night of heavy drinking with Brendan Bracken.

The setting is Italy. Il Duce's son, Vittorio Mussolini, rules. Annette Le Skye (Andromache) is in prison garb with yellow star. The Germans want her son Angus – half Bowes-Lyon, half-Jewish – to be packed on the train to Germany. Vittorio (Pyrrhus) is in love with Annette, but engaged and politically bound to the Princess Ira, a loyal German of Hohenzollern blood (Hermione) who has been his devout mistress for some time. Her cousin, Klaus Maria von Orestes, sent to Italy to demand little Angus, is mainly obsessed by his own futile and self-punishing passion for her.

Various forms of emotional masochism rule each of these upper-class characters. The sick soul of Europe, which so many film-makers and writers have returned to with horrid nostalgia, here becomes astoundingly real.

For the rational and classical austerity of language which Racine's characters deploy with such violent eloquence, Raine has substituted the literate and urbane style of modern English high-class parlance, often ironic and sometimes effete. Where Racine's characters plunge straight into analysing their emotions, Raine's often take an oblique line.

Raine's use of this language is virtuoso. That these characters are hypersophisticated eventually only heightens their intensity. (Klaus to Ira: "Underneath this mask there are third-degree burns, like a Kokoschka oil ... You used me like a tablenapkin, not a lover.") The bitter wit, the emotional abuse find striking modern equivalents. The basic metre is iambic.

The Citizens' Second Theatre is a small chamber with the audience banked on four sides of the action. Philip Prowse's designs are chillingly elegant.

The most daring stroke in his casting of this already politically loaded play is to give Annette LeSkye to the black actress Julie Saunders (as with Josette Simon in his recent *White Devil* at the National). The stiff-upper-lip nobility of Saunders's playing justifies his decision. She performs with a beautiful calm that goes beyond emotion; she is the same paragon through every volte-face or gear change.

Julie Blalock and Greg Hicks are uncannily perfect as Ira and Orest, victims of their own elegance. As young Mussolini, Patrick O'Kane has a wonderful blend of fire, cruelty, narcissism and pantherine softness.

1953 holds its audience riveted on every level. Concept, dramaturgy, designs, language, utterance and movement are all on a high, high level.

Alastair Macaulay

INTERNATIONAL

ARTS GUIDE

TODAY'S EVENTS

■ ATHENS

Concert Hall 20.30 Dimitris Chorafas conducts the Athens State Symphony Orchestra in music by Dragatakis, Beethoven, Bartok and Ravel, with Marina Krilovitsi soprano soloist. Tomorrow and Wed: Alexander Myrat conducts the Camerata Ensemble in music by Ibert, Martinu, Mozart and Shostakovich (722 5511)

■ BERLIN

MUSIC

Staatsoper unter den Linden 19.30 Wolfgang Rennert conducts Ariadne auf Naxos. Tomorrow: Le nozze di Figaro. Wed: Entführung. Thurs: Zar und Zimmermann. Fri: Fidelio. Sat: first night of new production of Sleeping Beauty, choreography by Rudolf Nureyev. Sun: Falstaff (East Berlin 2004 762)

Komische Oper 19.00 Harry Kupfer's production of The Bartered Bride. Tomorrow: Entführung. Wed: Henze's ballet Undine. Thurs: La bohème. Fri: Le nozze di Figaro. Sat: Cav and Pag. Sun: Idomeneo (East Berlin 2292 555)

Deutsche Oper 19.30 Peter Schaufuss' production of Giselle, also tomorrow. Wed: Die Walküre. Thurs: La Sylphide. Fri: ballets by Christopher Bruce. Sat: Béjart's Ring Round the Ring. Sun: Siegfried (West Berlin 3410 249)

THEATRE

East Berlin: tonight and Sat, the Maxim Gorki Theater is showing its new production of Arthur Miller's Death of a Salesman, directed by Siegfried Buhr, with Klaus Manchen as Willy Loman. Wed, Thurs, Fri: Khan Theatre from Jerusalem presents Hanan Peled's play The Clique, as part of the Berlin Jewish World Festival (2082 748). This week's repertory at the Berliner Ensemble includes The Threepenny Opera tonight, The Caucasian Chalk Circle on Wed and Baal on Fri (2827 712). The Volksbühne has a new production of Goethe's Iphigénie auf Tauris tomorrow, directed by Wera Herzberg with Heidemarie Schneider in the title role. Büchner's Woyzeck, directed by Andreas Kriegenburg, can be seen on Thurs (282 3394).

West Berlin: the Schaubühne has Luc Bondy's production of Botho Strauss' Schlusschor on Wed and Thurs (890023). The Schiller Theater has Lessing's Minna von Barnhelm tonight, Gerhart Hauptmann's The Rats tomorrow, Schiller's The Robbers on Thurs and Goethe's Faust on Sat (3195 236).

■ CHICAGO

Orchestra Hall 20.00 Gerard Schwarz conducts the Mostly Mozart Festival Orchestra in an all-Mozart programme, with Bella Davidovich piano soloist. Wed, Thurs, Fri, Sat: Zubin Mehta conducts Mahler's Third (435 6666)

■ COPENHAGEN

Royal Theatre 20.00 First night of Soren Frandsen's new production of Ariadne auf Naxos, conducted by Hans Zimmer with designs by Folke Abenius. The cast includes Tina Kiberg and Peter Lindroos. Runs till March 26, with next performances on Wed and Sat. Tomorrow: Bournonville triple bill. Thurs: La Sylphide (3314 1002)

■ THE HAGUE

Dr Anton Philipszaal 20.15 Arpad Joo conducts the Royal Flanders Philharmonic Orchestra in Prokofiev's Second Violin Concerto (soloist Emmy Verhey) and Tchaikovsky's Fifth Symphony. Thurs and Fri: Lazar Berman plays Beethoven's Fourth Piano Concerto with the Residentie Orchestra (360 5810)

■ LONDON

Covent Garden 19.00 Jeffrey Tate conducts a revival of John Schlesinger's production of Les Contes d'Hoffmann, with Jerry Hadley, Gregory Yurisich, Leontina Vaduva, Sumi Jo and Jean Rigby (seven further performances till April 11). Tomorrow and Thurs: Don Giovanni. Wed and Sat: Kenneth MacMillan's Manon (071-240 1066)

Coliseum 19.00 Noel Davies conducts Nicholas Hytner's ENO production of Xerxes, with Louise Winter in the title role. Tomorrow and Fri: Königskinder. Thurs: Street Scene (071-836 3161)

South Bank Centre 19.45 Song recital by Felicity Lott, accompanied by Graham Johnson. Tomorrow: Franz Welser-Most conducts the LPO. Wed: Charles Dutoit conducts the Philharmonia. Thurs: Steve Reich. Fri: Menuhin conducts the Hallé. Sat: Simon Rattle conducts Berg and Mahler (071-928 8800)

Barbican 19.45 Kiri te Kanawa launches the Barbican Centre's 10th birthday celebrations with a song recital, accompanied by Roger Vignoles. Tomorrow: English Chamber Orchestra. Wed: Boulez conducts the BBCSO. Thurs: Michael Tilson Thomas conducts the LSO. Sat: Rossini 200th anniversary concert (071-638 8891)

Royal Albert Hall 19.30 Eric Clapton and his band, plus special guest Clive Griffin. Also Wed, Thurs and Fri (071-823 9998)

■ MILAN

Teatro alla Scala 20.00 Song recital by José van Dam, accompanied by Valery Afanassiev. Tomorrow and Fri: Lorin Maazel conducts Manon Lescaut (7200 3744)

■ NEW YORK

Avery Fisher Hall This week's New York Philharmonic concerts are conducted by Kurt Masur. Tomorrow's programme consists of symphonies by Franck and Brahms. On Thurs, Fri and Sat, Masur conducts Beethoven's Eroica Symphony and Strauss' Metamorphosen (875 5030)

Carnegie Hall Tonight and tomorrow at 20.00, Isaac Stern, Yo-Yo Ma, Emanuel Ax and Jaime Laredo play piano quartets. Thurs and Fri: Lorin Maazel conducts the Vienna Philharmonic Orchestra (247 7800)

Metropolitan Opera Tonight at 20.00, Nello Santi conducts Rigoletto, with Ruth Ann Swenson, Richard Leech and Alain Fondary, also Fri. Tomorrow: Il barbiere di Siviglia. Wed and Sat: Tannhäuser. Thurs: Don Carlo (362 6000)

■ PARIS

Théâtre des Champs-Elysées 19.30 Claudio Abbado conducts the Chamber Orchestra of Europe in Luca Ronconi's production of Rossini's Il Viaggio a Reims, with a cast including Ruggero Raimondi, Cecilia Gasdia, Lucia Valentini-Terrani, Leila Cuberli, Cheryl Studer, Enzo Dara and Frank Lopardo. Repeated on Wed, Fri and Sun (4720 3637)

Opéra Bastille 19.30 Myung-Whun Chung conducts André Engel's production of Lady Macbeth of Mtsensk, with Kristine Ciesinski in the title role, also Wed. Tomorrow, Thurs, Fri, Sat in the Amphitheatre: Yukio Mishima in a Noh theatre production (4001 1616)

Centre Pompidou 20.30 David Robertson conducts the Ensemble InterContemporain in the world premiere of a new work by Edison Denisov, plus Elliott Carter's Double Concerto and Michael Obst's Nachtstücke. Repeated on Wed (4260 9427)

Châtelet 20.30 Frankfurt Ballet in William Forsythe's The Loss of Small Detail. Thurs, Fri, Sat: Forsythe's Artifact (4028 2840)

■ STOCKHOLM

Royal Opera 19.30 Ballets by Nils Christie and Regina Beck-Friis, also Wed and Sat afternoon. Tomorrow, Thurs and Fri: Natalie Conus' production of Swan Lake. Sat evening: song recital by Marjana Lipovsek, accompanied by Geoffrey Parsons (248240)

■ VIENNA

MUSIC/DANCE

Ronacher 20.00 Ballet National de Marseille in Roland Petit's Ma Pavlova. Repeated tomorrow and Wed. Fri, Sat, Sun: Garth Fagan Dance of New York (586 1676)

Staatsoper 19.00 Peter Schneider conducts Die Zauberflöte, with a cast including Hellen Kwon, Gösta Winbergh and Gottfried Hornik. Tomorrow: Minkus' ballet Don Quixote. Thurs: opera ball. Fri: Tosca. Sat: Il barbiere di Siviglia. Sun: Madama Butterfly (51444 2960)

Musikverein 19.30 Rolf Reuter conducts the Tonkunstler Orchestra and Slovak Philharmonic Chorus in Gerhard Berger's Frauenstimmen im Orchester and Otto Nicolai's Te Deum. In the Brahms Saal, the Clemencic Consort presents a programme of medieval music. Tomorrow and Thurs: Barbara Bonney song recital. Sun: piano recital by Stefan Vladar (505 8190)

THEATRE

Vienna's English Theatre (Josefsgasse 12) has performances of Richard Harris' thriller The Business of Murder, directed by Richard Olivier, daily except Sun till April 11 (402 1260). This week's repertory at the Burgtheater and Akademietheater includes Macbeth directed by Claus Peymann (tomorrow), Kleist's Penthesilea (Thurs and Fri) and plays by Brecht, George Tabori and Sean O'Casey (51444 2218)

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700

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A role for Mr Rabin

MIDDLE EAST peace talks reopen in Washington today against a more than usually dispiriting backdrop. The cycle of violence between Israeli forces and Lebanese guerrillas over the past week has set back the prospects for worthwhile negotiations. Moreover, the Israelis, by invading Lebanon, again showed a disdain for the wishes of the international community which scarcely encourages optimism about a peace process that has depended thus far on external pressure.

It would be premature to write the effort off, however. The fact that Syria, Lebanon, Jordan and the Palestinians are still planning to sit down with Israel – after two rounds of largely procedural talks and repeated affirmations by Mr Yitzhak Shamir, the Israeli prime minister, that he has no territorial concessions to offer – testifies that all sides still see mileage in not being blamed for aborting the negotiations. And developments over the past week in Israel – with general elections due in June – suggest that its position may not be set in stone.

The event that has raised at least the possibility of progress is the re-emergence of Mr Yitzhak Rabin, a 69-year-old former prime minister who consistently tops the polls as Israel's most popular politician, as leader of the opposition Labour party. The result may be a modest revival in Labour fortunes – and, perhaps, an Israeli government more amenable to territorial compromise.

Pragmatist

Mr Rabin is no dove. He is as tough as any graduate of the Israeli defence establishment. As defence minister when the Palestinian uprising in the Israeli-occupied West Bank and Gaza Strip broke out in 1987, he was responsible for a policy of repression that makes his Likud successor seem liberal. Yet unlike Mr Shamir, who believes in Israel's eternal sovereignty over the West Bank, he is a pragmatist concerning Israel's need to trade land for peace with the Arabs, and opposes extending Jewish colonisation of the occupied territories.

He is also someone with whom Israel's allies think they can do business. If the US administration had a vote in the coming election, Mr Rabin would undoubtedly be its choice – a matter of some importance when Israel is attempting to secure from Washington loan guarantees worth $10bn to help it absorb hundreds of thousands of Jewish immigrants from Russia.

Land concessions

The prospect thus opens up of a genuine electoral contest between Likud and Labour – one focused for the first time on a negotiation in progress, fought over the central issue of Jewish settlement in the territories, and perhaps unfolding against a background of real pressure from the US, which is tying approval of the loan guarantees to a freeze on settlement-building in the occupied territories. Implausible as it may seem to outsiders, Mr Shamir will compete with Mr Rabin for the mantle of peacemaker-from-strength – in other words, for the centre-ground of Israeli politics, where polls consistently show that most voters favour peace talks and sometimes that most favour territorial concessions. One not inconceivable result would be the formation of another so-called national unity government incorporating both main parties, as happened after the 1988 election.

From the point of view of the peace process, this would not be a disaster. Mr Shamir and Mr Rabin have worked together before, notably in producing a plan for Palestinian elections and self-rule that may resurface in the current peace talks. A Likud-Labour coalition might be strong enough to bypass fractious party politics, ignore the extremists to Mr Shamir's right, and pay serious attention to the critical issues concerning Israel's future that are now under discussion.

Outside powers have every interest in encouraging Israelis to elect a more accommodating government, and should not be squeamish about using political or financial pressure to show them where their real interests lie. There is a reasonable chance that, in this election more than in the past, the message will be understood.

An excess of prudence

ONCE AGAIN the British clearing banks are revealing depressingly large provisions for bad and doubtful debts. And once again they are seeking to reassure shareholders and depositors with the thought that their capital position is strong by international standards. All very comforting, until you recall that this is not saying much.

The capital base of some of the biggest US money centre banks remains dismally weak, while Japanese bank capital is both fragile and uniquely vulnerable, under the forthcoming capital adequacy rules of the Bank for International Settlements (BIS), to the mood swings of the Nikkei index and the domestic real estate market. And although the British banks may be better placed, there is still room for speculation about the ability of the UK banking system to finance an economic recovery.

No depositor in Britain need worry about a big clearing bank going to the wall. But customers do have to worry this year about the impact of bad debts on the availability and cost of credit. In any downturn in the credit cycle the banks invariably widen the spread between the interest they charge on loans and the interest they pay on deposits; and they justify this by pointing to the deterioration in their customers' creditworthiness. Yet this time, they are prey to unfamiliar pressures arising from the extraordinary build-up of indebtedness in the personal and corporate sectors in the 1980s, combined with government policy that perpetuates high real rates of interest in a protracted recession.

Problems compounded

These problems are compounded by disintermediation – the process whereby the banks' largest corporate customers by-pass the banking system by going direct to the money and debt markets for funds. There are fewer corporate customers from whom to extract increased margins. Yet bank lending is still sufficiently important within the wider financial system for this increase in margins to put a brake on recovery. If the banks fail to pass on base rate cuts in full, the transmission mechanism between looser monetary policy and economic recovery becomes more tenuous. A bigger interest rate cut is needed to generate any given increase in economic activity.

Nor is the threat posed by bad debts to bank capital entirely negligible. In today's conditions it would not be easy to raise fresh equity capital. So whether the banks are able to finance a recovery depends largely on how quickly they can build up retained profits through increased lending. The problem here is that creditworthiness is a subjective concept: a sound borrower is one to whom lenders will lend. This leads to a vicious circle. If the banks fail to advance credit they undermine the creditworthiness of their own customers. Bad debts multiply, with adverse consequences for profits and capital.

Bank profits

Confronted with this situation in the US the Federal Reserve has, in effect, made bank profits a target of monetary policy. It has repeatedly cut interest rates and relaxed bank reserve requirements in order to reactivate bank lending. And to good effect: there are now signs of an upturn in the housing and car markets. In contrast the UK authorities are unable to re-establish the creditworthiness of bank customers by cutting interest rates because they are boxed in by the exchange rate mechanism.

In the short run this is neither here nor there, in the sense that sluggish growth of broad money and bank credit is probably more a reflection of weak demand than credit constraints. But it could soon become more serious. In a recent circular Mr Giles Keating of Credit Suisse First Boston concludes, after testing the credit crunch hypothesis on various assumptions, that recovery is at risk unless base rates fall later this year to 8 per cent. In other words the UK is waiting on the Bundesbank. It is an uncomfortable predicament; and while the odds are on a serious credit crunch being averted, many small to medium sized businesses around the country will feel the squeeze before the year is out.

The UK is confident that the EFA project will go ahead, despite German uncertainty, write **David White** and **Quentin Peel**

Scent of victory for fighter

The first prototype of the revolutionary, multinational and decidedly controversial European Fighter Aircraft (EFA) looks unremarkable at first sight.

It stands in the middle of a hangar, trailing strands and bunches of electrical cables from its half-filled belly and wings, like some wounded beast with its entrails hanging out. Its state-of-the-art carbon fibre composite bodywork (70 per cent of the total surface area, another first) is dull grey, yellow and ochre, more like heavy-duty linoleum than space-age material.

The development hangar is in the heart of the Messerschmitt-Bölkow-Blohm (MBB) manufacturing complex at Ottobrunn, just south of Munich, where the multinational Tornado was first put together.

As a multinational exercise, however, it looks and sounds rather more impressive: three British electricians are working in the cockpit, two Italians under the left wing, and a Spaniard is perched on top of the right wing, while Germans are ferrying parts to the fuselage, all communicating in English.

It is going to have to be impressive, if it is to survive in the harsh world of post-Cold war military budgets.

This is the last year of EFA, but only in name. By next year it is due to be re-baptised. Managers are urgently searching for a title more appealing to the taxpayers of four countries, who stand to pay more than £20bn on the most complex flying machine ever built in Europe.

Above all, they need a more popular image in Germany, the partner nation whose commitment to the project – known there as the Jäger 90 – has been most in question.

In the UK, confidence has been growing in the past few months that the two-engined, single-seat, delta-winged, fly-by-wire fighter will go ahead. But it will not be quite the way it was planned. It will happen less rapidly, the partner nations will between them buy fewer aircraft, and Britain will have to assume a more dominant role.

The partners – comprising the UK,

UK planners are optimistic that, even if Germany opts out, Italy and Spain will remain committed and keep the project from collapsing

Germany, Italy and Spain – are now completing an £8bn development phase. The debut flight was to take place about now, but has been set back several months. It is uncertain whether it can be the star performer at the Farnborough air show in September.

"The cockpit is still very empty. That is the worst," says Dr Achim Aehlig of the EFA programme division at MBB. "There is work-sharing on every instrument, and on top of that we have transport problems within the EC. "Sometimes parts have to spend six or eight weeks at the customs because these are classified as military exports," he says with a grimace. "It's easier to get cocaine from South America."

A decision on investment to set up EFA production was to have been made by the end of this year, but this may well move into early 1993. The target date for bringing the first aircraft into service has already slipped from 1996 to 1997, but planners say it should still be possible to meet that deadline.

With the decision on production investment, the partners will have to reorganise the share-out of work. As with the Anglo-German-Italian Tornado programme, now almost over, work is given to each country in relation to how many aircraft it buys. For the development phase the UK and Germany assumed 33 per cent each, Italy 21 per cent and Spain 13.

Already, Spain is saying it wants to buy fewer machines – 87 instead of the original 100, according to Mr Julián García Vargas, the defence minister. Germany – assuming that it stays in the programme – now appears unlikely to want aircraft until quite late in the delivery schedule, and it is expected to buy closer to 150 aircraft rather than the 250 envisaged at the outset.

Any reduction in Bonn's commitment means that the British government – still pledged to buying 250 of the fighters – would be paying a larger proportion of the bill. Project managers say that this would probably mean only a marginal increase in the absolute cost to the UK.

They are hoping for a "reasonable" production run of at least 500-600 aircraft. But even with only 400, the "fly-away" cost – the basic cost of each aircraft, not counting the money that has already been spent on development – would not be significantly higher, they say.

If the UK government were to assume the main responsibility for the project, the programme would be more exposed to public debate, particularly if there were any serious glitches. So far, EFA has enjoyed all-party support in the UK, in stark contrast with Germany, where opposition is strong.

To palliate this resistance, Bonn has set up a series of reviews on possible alternatives to EFA. The key working group consists of six members of the ruling coalition. The Free Democrats, the junior coalition partners, are most divided on the issue, with Mr Jürgen Möllemann, their economics minister, on the record as saying: "This is one bird which will never fly." The six are to report by the summer.

The opposition Social Democrats are much more solidly opposed. "The cost explosion of the Jäger-90 is simply no longer bearable," says Mrs Ingrid Matthäus-Maier, the party's finance spokesman. "It is time for iron savings measures, and not for blowing more money on militarily unnecessary grand projects."

UK planners are optimistic that, even if Germany opts out, Italy and Spain will remain committed and keep the project from collapsing. Germany's work-share could be redistributed among the other partners, or the work could be subcontracted to the same German companies.

At MBB and its parent group, Deutsche Aerospace (Dasa), they are confident that the decision can only go in favour of EFA, unless the design parameters are completely redrawn.

All the partners looked in detail at rivals, such as McDonnell Douglas's F/A-18, before they signed away the money for EFA development. However, one aircraft they did not look at then, but which the Germans have looked at since, is the Russian MiG 29. Bonn inherited 24 of these from the former East German air force.

They would be cheaper to buy than EFA, but they have a comparatively short useful life, adding to their long-run cost, and the German air force has already had problems obtaining spares. Dasa says that the aircraft is "no longer seriously under consideration".

EFA: will it fly?

More likely options would include the French Rafale, due for service with the French navy from 1996 and the air force from 1998. However, the Rafale is built for a different requirement and could prove as expensive as EFA. The EFA's "flyaway" price is reckoned to be about £20m at today's prices – some 20 per cent less than that of a Tornado fighter-bomber.

Also under review in Germany are US fighters from the current top-of-the-range F-15 to its planned successor the F-22. Choices include future developments of the F/A-18 and General Dynamics' successful F-16. The F-16 would be cheaper than EFA.

But, like Sweden's new Gripen fighter, it has only one engine – and that is anathema to the German air force after the notorious sequence of crashes, beginning in the 1960s, which involved the single-engined F-104 Starfighters.

Conceived in the Cold war, EFA is now touted as an aircraft versatile enough for contingencies around the globe. But its performance requirement is still measured against the best Russian product – no longer seen as the MiG 29 but potential improved versions of the Su 27 counter-air fighter.

According to projections by British Aerospace (BAe), none of EFA's rivals would do as well against an upgraded Su 27 in air-to-air combat except for the Lockheed/Boeing/General Dynamics F-22. But, say EFA project managers, the latter will be much bigger and heavier than EFA: it is unlikely to be able to take off from a 500m strip (one of the EFA requirements); and it is not meant for a secondary ground-attack role. It is also highly secret, not yet exportable, and probably at least twice the price of EFA.

There are strong industrial arguments for Germany remaining in the EFA programme. Its aircraft industry was reorganised with government encouragement in 1989, when Daimler-Benz took control of MBB to form Dasa. EFA is the largest collaborative military programme it is likely to have for a long time to come. The company would benefit from EFA exports, for which there are high hopes. Any alternative would be unlikely to offer it more than a production sub-contracting role. Dasa wants to work from the experience of Tornado and EFA to form a joint European military aircraft company, which would eventually bring in Dassault of France.

Nobody believes Europe can afford to split ranks again and produce two aircraft of this kind simultaneously – Dassault is already talking with BAe about the next generation of supersonic combat aircraft that would succeed EFA and Rafale some time after 2020. Bonn's risk, if it withdraws from EFA, is that German industry would be left on the sidelines.

But Germany has a tight budget for buying a new fighter – DM 12bn (£4.1bn) between now and 2005 – and has already started looking for ways of cutting its EFA costs. It has pulled out of an infra-red sensor system for the aircraft and is looking for cheaper electronic warfare equipment than the system chosen by the other partners.

The partners have cut the number of prototypes from eight to seven and are studying changes in assembly arrangements. The aircraft is planned like the Tornado, with each partner producing separate bits. EFA's front end is British, its middle German, its rear end Spanish and Italian, its fin German, its left wing Italian and its right wing sometimes British, sometimes Spanish.

Under the Tornado model, each country would carry out its own assembly and its own flying tests. It may be possible to reduce the number of test centres, but partners will be reluctant to lose their assembly lines, which would cost jobs.

Tight cost limits were imposed for the development programme, with performance targets written into the contract, and companies bearing the penalty if costs exceed the budget. But it is clear that a serious overrun would test the determination of governments. Would they pursue their strict principles to the point of bankrupting their national aircraft companies?

As defence budgets shrink, other services look askance at the amount of available funds that EFA will eat up. But at the same time, the aircraft it is due to replace – including Italian F-104s, and German and Spanish F-4 Phantoms – are becoming increasingly expensive and difficult to maintain.

EFA's proponents are banking on the lack of an alternative. The development money is already spent. Whether there is any other realistic choice that would not, at this stage, prove more expensive is doubtful. It is almost certainly too late for Dasa or any of its counterparts in the other EFA countries to play a significant part in an alternative project. And there is no other military aircraft programme in the offing until well into the next century – not one that could sustain a full capability for designing and making front-line fighters. That is something that neither Britain nor Germany is probably yet prepared to relinquish.

OBSERVER

"We've hardly been affected by the recession at all"

Out of the mine-field

■ Unlike most of Britain's construction industry chiefs, Tony Budge is prepared for anything. Parked outside his company's Retford HQ are a Scud missile-launcher, a squadron of ex-Soviet tanks and enough other second-hand fighting vehicles to equip a third world army.

"I always wanted to be a Royal Engineer," says the 52-year-old Budge, a keen supporter of the military vehicle conservation group and active fundraiser for the Army Benevolent Fund. But just as he was about to sign on, his father was taken ill and the would-be sapper was press-ganged into the family building company as a left-handed bricklayer. Then, after training as a civil engineer, he started his own company A F Budge. His career has never looked back.

As chairman of Britain's third biggest road-builder – the M62 corridor is his main theatre – Budge is better placed than most publicly-quoted competitors such as Tarmac, Wimpey and Laing. He avoided house-building, and is gaining from the surge in government roadworks.

However, a recent expansion into open-cast mining had pushed gearing over the 100 per cent mark. Hence the decision to sell Budge Mining – the UK's biggest private coal-producer – to management led by his younger brother Richard. Although the two brothers are going their separate ways they still share an interest in the new Sheffield airport they are building.

Hani the Greek

■ Guess where Chris Hani, general secretary of the South African Communist Party, has chosen to educate his 10-year-old daughter?

Hani, one of the world's few remaining true believers in communism, has enrolled his offspring at an elite Johannesburg private school. For R10,000 a year – more than the annual salary of most urban blacks – Lindiwe Hani is attending Saheti school, a Greek private school where Greek language lessons are compulsory. According to a Johannesburg newspaper, Hani chose the school because he was "interested in Greek culture and religion".

He could not have been expected to send Lindiwe to a segregated black public school in Soweto; but he could have chosen one of the many white schools which have opened their doors to other races - at a fraction of the cost.

Musing?

■ Observer is offering a bottle of the finest malt whisky to the first reader who knows why the following chorus is now echoing round the streets of Aachen – and can elucidate all pertinent references:

Gremium, gremium,
Epithalamium,
Soon you'll be married,
And tra-la-la:
Vorstand with Vorstand
Will grow e'er more rotund,
Your stock is not votund,
But tant pis, ça va.

Overdue

■ There may be doubt about Poland's economic reforms, but at least the country should not be without a finance minister for much longer. Andrzej Olechowski, the deputy foreign trade minister, is tipped to take over the hot seat.

A tall, silver-haired 45-year-old, Olechowski first came to prominence as a disc jockey on Polish radio in the early 1970s. By 1981, he was working at IKC, the Trade Ministry's research institute, where he set up Solidarity's first cell in the government administration. It was IKC which, in the first days of martial law, produced a report reminding the communist government that western sanctions would be successful and that martial law had to be lifted soon.

After a stint at the World Bank, he returned to Poland's central bank, the NBP, to run its relations with international financial institutions. When Solidarity came to power, he was promoted to vice-chairman of the NBP, before being given the job of handling the sensitive parts of Poland's association agreement with the EC which was signed last December.

Well-regarded by the World Bank and the IMF, Olechowski's promotion could help break the log-jam over the renegotiation of Poland's $10bn commercial bank debt.

Bush-whacked

■ Judging the importance of the Institutional Investor magazine's annual ranking of London's stockbroker research teams is like assessing the outcome of the New Hampshire primaries. The results get everyone rattled but no one really knows what they mean.

SG Warburg has dislodged James Capel from the top spot in the all-Europe research table which is in line with the outcome of last year's more thorough Extel Financial survey. BZW has held its number four position whereas it dropped from third to sixth position in the Extel survey. But the oddest performance is County NatWest's. It comes top in terms of UK equity research but drops from third to sixth position in terms of its overall ranking.

Will it be enough to persuade Lord Alexander to drop his "make a profit or we will close you down" ultimatum? Observer thinks not.

Less majesté

■ How times change. The first British TV documentary on the Royal family in 1969 was watched by an estimated 23m people, a good 40 per cent more than watched Coronation Street, the most popular TV soap opera at that time.

By contrast, the latest audience research estimates show that 17.9m watched Elizabeth R, the most ambitious documentary yet to be made about the Queen's life. This was 2.5m fewer than watched Coronation Street and means that the Queen also trailed behind EastEnders and Jeremy Beadle's You've been framed. Since 1969 the number of TV licences has increased from 15.5m to 19.5m.

Unreserved

■ At the end of a long debate on the creation of a reserve system similar to the Federal Reserve, one bewildered east European official turned to the others and said: "Listen, comrades, it is all well and good to talk about a reserve system, but when are we going to get around to discussing the main one?"

Italy's season of indignation

The April 5 election could see an exceptionally strong protest vote, writes Robert Graham

Like the opening of the shooting season in Italy, when hunters take to the field and shoot at almost anything that moves, the campaign for parliamentary elections on April 5 has begun with shots being fired in all directions.

The campaign promises to be dirty. This is not surprising. For a number of reasons – the changes in the international climate, the growth of regional sentiment, widespread disenchantment with the political system, and the challenges facing Italy's economy in Europe – these are unusually important elections.

In purely domestic terms, the elections will determine whether the ruling Christian Democrats can retain the hegemony they have enjoyed since 1946, the longest any party has held power in post-war Europe.

The vote will also test the strength of the left following the collapse of communism in eastern Europe and the metamorphosis of the Italian Communist party, once the strongest in Europe, into the Party of the Democratic Left.

In addition, the emergence of the populist Lombard League movement in northern Italy threatens to fragment the political arena and accentuate the divide between the rich north and the poor south.

Internationally, the elections will determine whether Rome can provide a government with sufficient unity and purpose to bring the country into line with its chief partners in the EC. During the next two years Italy needs to reform public finances, reorganise public administration and strengthen industry if it is to comply with the EC convergence criteria agreed at the Maastricht summit in December.

Mr Gianni de Michelis, the outgoing foreign minister, rightly claims that the main achievement of his government has been to commit Italy irrevocably to European union. Thus, the electoral agenda is largely being set by a combination of the dictates of Brussels and the consequences of the collapse of communism.

Although Italy has enjoyed a vibrant democracy over the past four decades, with arguably a broader range of political parties and opinion than anywhere in western Europe, the electoral process has always been profoundly conditioned by east-west tensions. The uninterrupted rule of the Christian Democrats in 50 governments has ultimately depended on a fear of the Communist party's taking power through the ballot box.

The removal of communism from eastern Europe, and the formal winding up of the Italian Communist party last year, have eliminated this constraint. The implicit, and sometimes explicit, backing of Washington for the Christian Democrats has evaporated and their traditional ally, the church, has begun to distance itself from a party which has tolerated corruption. The business community too has moved away from the party, and in the north is threatening to embrace the calls of the Lombard League for clean government.

"The country has the hope and the will for a big change," says Mr Giorgio la Malfa, leader of the small opposition Republican party.

Italy's system of proportional representation has produced 45 governments since 1948. In only 15 of these have the Christian Democrats ruled alone. The rest of the time, the party has depended on a revolving series of four coalition partners – the Socialists, the Republicans, the Liberals, and the Social Democrats.

Already Mr Bettino Craxi, the Socialist leader, has announced he would accept an invitation to form a government with the Christian Democrats on the understanding it would be the Socialists' turn to control the premiership. Such a carve-up of power between rivals may occur, but the system, which favours weak coalition governments, has reached the limits of usefulness.

President Francesco Cossiga almost never ceases to call for change. The main parties have put forward ideas for electoral reform whose common thread is the search for a means to produce majority governments, stronger coalitions and the elimination from parliament of groups which obtain less than 5 per cent of the vote.

Such proposals merely respond to a profound desire for change among the electorate and alone are unlikely to attract votes. Opinion polls show that what voters most want are improvements in public services, and solutions to problems such as traffic, pollution and crime. The ingredients exist for a strong protest vote. For the first time, polls have revealed that most voters – 40-45 per cent – are uncommitted.

The record of the outgoing four-party coalition has contributed to this big floating vote. Mr Giulio Andreotti, the prime minister, leaves a public sector deficit equivalent to 10.5 per cent of gross domestic product, a near-worthless 1992 budget due to last year's overspending and a string of incomplete reforms.

The 73-year-old Mr Andreotti, who has been prime minister seven times, epitomises the current impasse. Nobody would deny his consummate skills as a survivor able to navigate the channels of factional power and bureaucratic intrigue. But these are the skills of a discredited political class which regards government as a system of finely-balanced favours, rather than as a process that responds to citizens' needs and rights.

What is almost palpable is popular frustration with constantly changing governments which recycle the same faces without addressing fundamental issues. These frustrations were underlined last June, when 27m voters, despite the hostility of the main political parties, endorsed a referendum ending the system of multi-preference votes in parliamentary elections. The innovation, to be tested in April, is designed to limit the power of party bureaucracies over the choice of candidates.

The referendum has come to be seen as the most effective means of forcing change on an ossified parliament. No fewer than 10 referendums could be presented to Italian voters next year, on subjects ranging from the introduction of a first-past-the-post voting system for the Senate to the abolition of the Ministry for State Share-holdings. A central figure in the referendum movement is Mr Mario Segni, son of a former president and one of the rare new faces to emerge within the Christian Democrats.

Until now the surge of opposition support has grouped round the Green and Radical parties, minority interest groups (such as pensioners) and small regional blocs, such as the one active in Sardinia. Above all, the protest vote has been galvanised by the eruption of the Lombard League in northern Italy, inspired by the fiery senator, Mr Umberto Bossi. He aspires to win more than 10 per cent of the vote nationwide, making the League the fourth-largest party in parliament.

Mr Bossi has found a receptive audience for his outspoken criticism of corrupt central government which favours a "decadent south" at the expense of the "industrious north". He has thrown down the gauntlet in his stronghold, Bergamo, saying: "The mafiosi politicians know that if, by 1995, there is no change in the rules of the game, we will establish a Cisalpine constituent assembly at Pontida (near Bergamo)." This threat to establish an assembly for northern Italy alone may be no more than political blackmail, but it pleases his audience.

In local elections in the north, the League has already proved it can split the Christian Democrats' vote. To keep its share of the vote above 30 per cent, the Christian Democrats are appealing to the electorate's fear of the unknown. They are also relying on their powers of patronage in the Rome area, and in the south. The Socialists too are on the defensive. Never having obtained more than 14 per cent of the vote, their strength has depended on a willingness to co-habit with the Christian Democrats.

The one-year-old Party of the Democratic Left is struggling to establish an identity round an uncertain form of social democracy. Mr Achille Occhetto, its leader, has failed to convince the Socialists that his party is a worthy electoral ally. The party's strength remains the former communist heartland round Bologna and Florence. But a hardline communist rump has regrouped under the banner of Reconstituted Communism (*Rifundazione Communista*) and could absorb 10 per cent of the Democratic Left's vote.

"Above all else, the elections are going to be a huge opinion poll which will allow everyone to take stock," says Mr Giuseppe Roma, deputy director of Censis, an independent research institute. Once politicians see how the pieces fall, they may realise that the party picture has become even more fractured than it is now, and that fresh elections with the promise of real reforms offer the only solution.

Samuel Brittan

UK monetarist golden age – alas a myth

There is a curious myth that the Conservative government presided over a successful, if initially unpopular, monetarist policy, up to the mid-1980s, which was then wantonly abandoned in pursuit of the snare of the D-Mark exchange rate target from which all our discontents are supposed to arise.

This myth has resurfaced in the February Economic Outlook of the London Business Group in an article by Professor Patrick Minford in which he challenges the Outlook's support for the European exchange rate mechanism. "Going back to monetarism" is his alternative. His own unequivocal yardstick for monetary policy is M0 – notes and coins plus banks' voluntary balances with the Bank of England.

Unfortunately Minford does not appear to have looked very closely at his own charts. Indeed, I often wonder whether economists – and not just Minford or those on his side – take their own charts seriously or merely use them to decorate their articles. One of the consolations of not being an econometrician is that I take a great deal of trouble to link my charts to my articles, as harassed members of the FT graphics and statistics department will confirm. The chart in this article is a slightly clearer version of Minford's own to which has been added M4 – the favoured measure of "broad money", which includes bank and building society deposits.

Several features stand out from the M0 line on the chart.

● There was an extremely savage drop in the growth of M0, far more severe than anything in the past couple of years, during the early Thatcher period. Minford is free to argue that the present squeeze is much tighter than anything then; the truth is we still do not know. But he cannot base his conclusions on his own preferred yardstick.

● There was a quick recovery in the growth of M0 from late 1982 onwards. Minford approves, at least in retrospect. But the usual policy platform of the technical monetarists is a stable or gradually falling growth of the money supply, which can be monitored in a straightforward way.

● In the period up to the end of 1987, when the credit boom was gathering momentum, the growth of M0 was stable or even slightly declining. Nigel Lawson's real mistake was to give M0 too much rather than too little house room. Whenever I raised this matter at the "Gooies" (group of unofficial economic advisers) Minford would loudly inform the chancellor that "M0" was the government's policy.

I have a little more sympathy with the rival version of the story told by Tim Congdon in recent Gerrard and National Economic Reviews. Congdon favours the broader M4 aggregate, and can at least tell a causal story. But his version is also flawed. For, as the chart shows, M4 shot up in the early 1980s, during a very severe squeeze when inflation was tumbling. In fact it was growing as rapidly then as in 1988-89 at the height of the recent boom. Indeed, it was the traumatic experience of the early 1980s that led to the gradual shift from a money to an exchange rate objective. It was only well into 1987 that M4 gave an extremely muted warning of expansionary or inflationary forces. As for bank and building society lending their growth exceeded 20 per cent a year in the squeeze year of 1980 and then remained consistently below that level until 1989 when the boom was starting to run down.

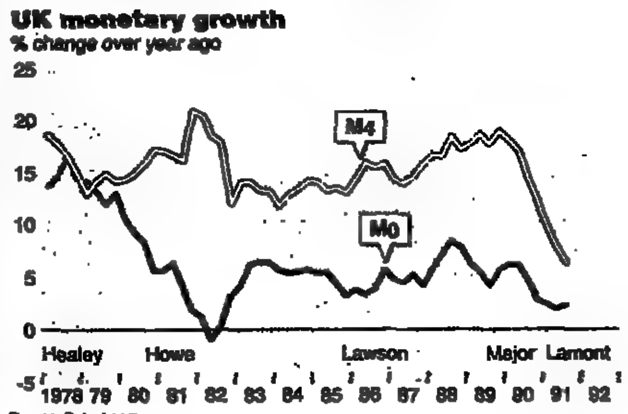
The real money supply – that is money adjusted for inflation – to which Congdon now wants us to pay attention, may be a helpful diagnostic tool for the real economy. But it is hopeless for a nominal framework aimed at reducing inflation itself.

To come forward to the present situation, Minford cites me as saying that the UK will soon return to growth in spite of high real interest rates. I am sure he writes in all sincerity. But I wish he and his mentor, Sir Alan Walters, would read my actual words carefully before going up in flames. The article that Minford cites (Economic Viewpoint January 9) simply said that high real interest rates "need not" prevent recovery and had not done so in 1981-82. I leave readers to decide whether my words and his paraphrase mean the same thing.

Unfortunately I have left myself no time to discuss a more reflective argument in favour of a UK devaluation within the ERM by Simon Wren-Lewis in the same Outlook. But he is well answered by the Outlook's editors. The latter's arguments are reinforced by a new Institute of Economic Affairs Research Monograph by Cliff Pratten entitled Overseas Investments, Capital Gains and the Balance of payments, out today (£7.95), which suggests that the UK balance of payments is in much better shape than generally contended.

UK monetary growth

% change over year ago



Source: Datastream

LETTERS

Why companies should retain right to publish unaudited data

From P K Wood.

Sir, I am concerned at attempts by the auditing profession to restrict companies' ability to issue public statements on their financial position, including interim results and preliminary announcements of full year results, without having that information signed off by an external auditor. It is important that companies retain the freedom to publish unaudited data.

Interim figures and full year preliminary announcements are not audited currently in the UK or in the more tightly controlled US environment. Waiting for all routine audit confirmations to be completed would unduly delay announcements and increase the risk of insider dealing. It would also add to already expensive audit costs.

A prudent company will ensure that full year announcements are agreed informally by the external auditors and that either internal or external audit checks are performed on interim announcements. The survey you refer to ("Move for broader auditing of results", February 20) shows preliminary announcements agree with audited figures and demonstrates this process works.

It is not surprising that share prices do not move when audited figures are released since the same unaudited figures are already in the public domain.

The system works well. Why change it to the obvious detriment of shareholders?

P K Wood,
group financial controller, director of treasury, Reuters, 85 Fleet Street, London EC4P 4AJ

FT coverage of Lloyd's

From Mr Paul R Rawson.

Sir, Under a banner headline, "Lloyd's in cash talks with the Bank", on your front page (February 18), you declare that "Lloyd's of London, government ministers and the Bank of England are discussing measures to ease a liquidity crunch at the insurance market, according to a senior broker involved". This statement, relying upon a non-attributable source, was picked up by other newspapers and media, no doubt because of the high regard held for the FT as a journal of financial record.

It would seem that both Lloyd's and the Bank very quickly declared this statement to be untrue. And yet coverage in the FT of February 19 of this important rejection is confined to page 8, in the midst of a piece written under a totally different heading – "Lords to consider Lloyd's duty to Names". To quote: "Lloyd's said yesterday that 'centrally' it had not been involved in any discussion with the Bank of England about possible financial assistance. It also said that it had made no request for assistance from the Bank or from ministers."

Surely, given the importance of the Financial Times as a journal of record, it is incumbent upon you to give, to a denial or rejection, exposure with similar weight as the original report. Failure to do so could quickly erode the respect and regard with which the FT is viewed.

Paul R Rawson,
Springwood, Audlem, Cheshire CW3 0BA

Editor's note: The report should have begun: "Talks are under way between senior figures at Lloyd's..." We regret that this distinction was not made clear.

Not EC figures

From Mr Bruno Dethomas.

I was astonished to see that on February 12 you carried on the front page a table entitled "1992 EC Budget", quoting the European Commission as its source. The Commission has consistently refused to publish any such table showing a breakdown of net balances by country.

Given that the debate about net balances now appears to be running in the UK, I think it appropriate to point out that European Community integration makes such calculation increasingly difficult. How, for example, do you break down and assess the efforts made at Community level by each member state in order to improve research and training and to meet the EC's commitments abroad? There could be a margin of error of up to 15 per cent, which clearly illustrates the shortcomings of such an exercise.

Bruno Dethomas,
Commission of the European Communities, Brussels

Uruguay Round: third of a loaf is better than no bread

From Mr Roy Denman.

Sir, Martin Wolf attacks yet once again the European Community as the evil empire of world trade ("The perils of tunnel vision", February 18).

The Uruguay Round has suffered from a number of difficulties. Over the years the scope of these periodic set piece negotiations has steadily widened. And recession and elections do not now help to put together a final deal. But the biggest difficulty of all lay in the vastly over-ambitious American bid on agriculture – initially that all subsidies distorting trade should be abolished. This was a mistake for several reasons.

● The GATT has learnt to work on the basis that progress can best be achieved incrementally. No one demanded at the outset of the Kennedy Round (1960s) or the Tokyo Round (1970s) that industrial tariffs should be abolished. But a third was lopped off each time; tariffs are now a fraction of what they were when the GATT started in 1947.

● The proposal was a piece of American bluff. It was not a proposal by the US government. It was a proposal by the executive branch. This can suggest anything which comes into its head. What matters is what congress decides. Anyone who thinks that congress would be willing to cut substantially the massive federal subsidies to dairy farmers, to give only one example, is either wrong in the head or has never been to Wisconsin.

● The result of this grandstanding has been that for years no sensible discussion of agriculture was possible. Not only is it now dangerously late in the day to reach agreement, but the gap between the American proposals – even if now modified – and reality is still big enough for a humiliating climb back from a far out limb to be difficult to accomplish.

That the Community needs to cut its agricultural subsidies is not in question. The question is how much how soon. A cut of about a third is all that is politically possible in 1992 – more will come later. Its partners need to recognise that this is the most that can be got now, just as their partners need to recognise that the Americans will do little or nothing to cut their barriers to agricultural imports and nothing to liberalise air and maritime transport, that the Japanese will do little to liberalise imports of rice, and the Australians little to cut their monstrously high industrial tariffs. But a respectable deal can still be picked up off the table. It is worth reflecting that a third of the loaf, with more to come, is better than no bread and a wolf eating your rear end.

Roy Denman,
194b Avenue de Tervuren Bte 15, B-1150 Brussels

On a flight of fruity fancy

From Ms Sarah Myint.

Sir, Dr Michael McGannon, in his article on avoiding jet-lag (Management, February 19), is no doubt scientifically correct, but I have a simpler solution. I order a fruit diet. The day before the flight I eat a lot of vegetables. On the flight I eat nothing but fruit (despite the additions they put on my tray) and drink nothing but fruit juices or water or weak black tea. On arrival, I am not at all tired. I am talking about long flights. Next day I eat less than usual and am ready for anything. My daughter once didn't like the meals and just drank fruit juice. She was amazed how well she felt on arrival.

Sarah Myint,
52 Windsor Terrace, South Gosforth, Newcastle upon Tyne, NE3 1YL

Fax service

LETTERS may be faxed on 071-873 [illegible]. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

FINANCIAL TIMES

Monday February 24 1992

Environmentalists to fight plans for trade in endangered species

By David Dodwell, World Trade Editor

ENVIRONMENTAL lobby groups from across the world are gathering in Kyoto in Japan at the end of this week, preparing to wage war over the plight of the world's "charismatic megafauna" – large, animals such as the elephant and rhinoceros.

The pariah of the tri-ennial conference of the Convention on International Trade in Endangered Species (Cites) will be Zimbabwe, which along with four other southern African states is pressing for a resumption in the world trade in ivory.

However staff of the Lausanne-based Cites secretariat are perhaps most concerned that international obsession with a handful of "charismatic megafauna" will trample underfoot debate on trade in an array of equally important flora and fauna. This ranges from Cunningham's orchid or Wagner's viper to American mahogany and live parrots.

They are also worried that amid the heated and pious debate between traders and conservationists, in which each will be staking claim to the moral high ground, few will be enthusiastic to supply the necessary funding to back up their points of view.

At present, Cites' 10 professional staff subsist on a meagre total budget of SFr3.9m ($2.6m) a year. They are pressing for a 43 per cent increase to SFr5.57m, but fear few of Cites' 112 member governments are keen to dig deeper into their pockets.

The 12-day conference, which starts next Monday , is likely to be dominated by angry debate on the ivory trade. A total ban has been in place since 1989, following a decade in which Africa's elephant population slumped from 1.2m to 600,000.

Inside Europe, delegations from Britain, Germany and France have split the EC by opposing a Commission proposal to allow a resumption of trade in elephant hides and meat, but not ivory.

Zimbabwe, with South Africa, Botswana, Namibia and Malawi, claims that effective management of native elephant herds has resulted in such growth in local populations that culling is needed. They want a resumption in trade of ivory and other elephant products to enable them to generate more funds for protection and preservation. The funding from the resumption in trade would also help villagers, who often see little benefit from tourism and the growth of national parks, and suffer crop damage from animals that stray out of park areas.

They say the trade ban does little to protect the elephant, and argue that problems faced in Kenya and other east African states arise from corruption and poor management of the national parks.

Arrayed against Zimbabwe, speaking in highly emotional unison, are the world's conservationist groups who fear an end to the ban will annihilate the progress made over the past three years, just as elephant herds have begun to recover. Among them, such groups as the London-based Environmental Investigation Agency allege a conspiracy by the South African and Zimbabwean military to smuggle poached ivory into Asia.

Zimbabwe, in turn, is pressing for a ban on trade in clupea harengus – the humble herring - in retaliation against what it sees as hypocrisy on the part of first world countries that have decimated their own wildlife, and now presume to lecture them on how to manage the wildlife populations in their countries.

Employers cast doubt on value of Maastricht 'opt-out'

By David Goodhart, Labour Editor

THE governing council of the Confederation of British Industry, the UK employers' organisation, has expressed doubts about the economic value of Britain's "opt-out" from an extension of European Community competence in the social and employment field.

A paper approved by the CBI Council last month continues in principle to support the opt-out from the EC's so-called Social Chapter, negotiated at last December's European Council summit in Maastricht.

However, the paper states: "There is unlikely to be any lasting advantage to UK businesses if the rest of the EC is handicapped by a labour and social affairs regime characterised by a centralised approach to determining employment conditions."

This assessment appears to challenge government claims that the "opt-out" would benefit Britain's economy by making it an attractive haven for foreign investment.

The CBI says that if the 11 EC member states, minus the UK, decide to establish a raft of employment directives UK business will still be affected. "All directives would bear immediately on the operations of UK companies elsewhere in the EC, and perhaps one day on their activities at home." That view reflects the feelings of some personnel directors in UK multi-nationals who regret that the UK will have no influence over employment policy and fear that pressure will eventually nullify the opt-out.

Nonetheless the CBI paper says the opt-out has prevented some problems from "becoming more acute". It also draws some comfort from the controversial agreement between UNICE, the European employers federation, and the European Trades Union Congress, which allows the two bodies to scrutinise and propose employment legislation.

That agreement, included in the "protocol" signed by the 11, was dismissed as "Euro-corporatism" by some UK ministers. But the CBI says: "The agreement will at least provide EC employers with some ability to protect themselves from burdensome regulation now that the UK government's vote in the Council is no longer there."

Mr Michael Howard, Britain's employment secretary, was angered by the agreement between UNICE and the ETUC, and last week sharply criticised the EC employers organisations in general and UNICE in particular.

He told the American Chamber of Commerce: "Dialogue between employers in Europe is inadequate and UNICE is too Brussels oriented and spends too much time trying to lobby the Commission, which is not a fruitful exercise." He said he wanted to see employers lobby their own governments more on EC employment policy.

Some risqué reading for the risk-averse

By Anthony Harris

So the bulls were right. Falling inflation is indeed producing falling yields in the equity market, even if not by much, and not in the manner you may have been led to expect. And P/Es are going up, too. As long as the market continues to discount a recovery some day, falling earnings can do the job quite effectively. Making industry more efficient by means of putting relentless pressure on profits is a rather unusual approach from a Conservative government, but it is the policy we have, and it is working.

But when I hear last year's squeeze on profits described as a nasty surprise, as I did from the top table at the Society of Investment Analysts' excellent dinner last week, I am reminded of Mr Denis Healey's complaint about "the young men who write brokers' circulars". Even the middle-aged analysts, with a few honourable exceptions, behave as if they were young – too young, that is, to remember anything but the most recent past.

You have to go back more than 30 years, after all, to the previous time that anyone questioned the idea that equity investments would always pay best in the long run; faith in equities survives even now, even among the pessimists. The Norwich Union, for example, appears to share my belief that bonds are the logical holding in times like these. But it talks only of a narrowing of the yield gap – not of the reappearance of the traditional gap, in which equities yielded more than bonds because they were riskier.

Yet logic suggests that this ought to be somewhere in the forecasters' sights, even if only as one end of a range of possibilities. Indeed, in one sense the traditional yield gap reappeared a decade ago, when indexed gilts first became available. To nobody's surprise, these bonds, offering a risk-free real return, have nearly always yielded less than equities, and may well put a floor under British equity yields. Any brief fall in yields below this benchmark has rightly been read as a sign of bull-market excess, and that was in an inflationary world.

It is fashionable at the moment to play with the idea that the great post-war inflation is going away. Nobody seems to draw the obvious conclusion, which is that if this did happen, the other yield gap – that between indexed and conventional gilts – might become very narrow. Indeed, if prices started falling, as they *have over quite long periods of* economic history, the conventional bonds would outperform the indexed, let alone equities.

Look at it another way. The cult of the equity was started by Mr George Ross-Goobey as director of the Imperial Tobacco pension fund in the 1950s. Inflation was low at that time, but real growth was about equal to inflation. As he argued to a rapidly growing audience of converts, that made equities the ideal backing for a final-salary scheme. Taking one year with another, equities were a holding in money national income, and salaries would have a pretty constant share in that income.

If you want to take risks, what would you rather back, in the next few years at least – real growth rising towards its old trend rates, or falling inflation?

That is still true, and it is hard to imagine a future in which equities would not be a core holding in any decently-managed fund.

But not, surely, virtually the sole holding. The numbers that matter here are those indicating the relation between the risk premium the market demands – measured in Britain at the moment by the gap between equity and indexed yields – and the expected real growth rate. Since the gap is normally in the 1-1½ per cent range, and real growth at that rate is still only a matter of hope for the future, the indexed enthusiasm of a Mr Roger Bootle of Greenwell Montagu (and a few sages) explains itself. This is the logical home for the risk-averse.

Most fund managers, however, like to think that they *have redder blood in their* veins than that. Indeed, if indexation became really fashionable, many of them would be out of a job. But if you want to take risks, what would you rather back, in the next few years at least – real growth rising towards its old trend rates, or falling inflation? Or to put the question more precisely, would you back an average growth rate of more than 2 per cent, or a 2 per cent fall in trend inflation? And if you are hesitating even for a moment over that answer, why are you still up to 70 per cent in equities?

The fact is that after the appalling experience of the 1970s, gilts are still seen as too risky for any respectable fund, and the equity market will still be supported for many years by funk money in search of an each-way bet. But even those who do not take the bold step of re-balancing their portfolios should at least try to loosen up their thinking. Otherwise they *may find themselves in the* same position as those who thought Mr Ross-Goobey was being a bit too fast for comfort.

A bolder approach by fund managers would make the economy a good deal easier to manage, since governments which borrow at rates of interest higher than the likely growth of their revenues are mortgaging the future. They are likely to remember this, except in election years, so do not base your strategy on the hope of a fiscally-led recovery in times like these. A keener demand for bonds might drive down yields across the board, thus justifying the hopes of the forecasters after all. So you could even regard a serious re-examination of gilts as a patriotic duty . . . well, as being prudent, at any rate.

Prudence of quite another kind, however, will in future be demanded of others in the City. If there is one lesson which comes out of the recent results of financial intermediaries of every kind, it is: stick to your last. Even if managers had resisted speculative fever and sheer growthmanship, they would have lost heavily by conduct which they saw as enterprising.

Clearing banks which ventured overseas, or into estate agency; savings banks which tried merchant banking; US savings and loans which got into shopping development or mining; London discount houses which forgot that they are essentially a privatised dealing room for the Bank of England, and took position – all have lost their shirts. Does this sound like a plea for the old days, when equities yielded more than gilts, and houses *knew their place?* Why, so it does.

Cyprus may have attracted too many tourists

By Michael Skapinker, Leisure Industries Correspondent

TAKE your next holiday in Cyprus, a £1m advertising campaign told UK television viewers last year. With the Gulf war over and war-wracked Yugoslavia off the tourist map, the Cypriot effort was resoundingly successful.

So successful indeed that travel companies now fear the number of Britons arriving in Cyprus this summer might exceed the beds available by as many as 50,000.

The Cyprus Tourist Office is struggling to match demand and supply. Travel companies in the UK and hoteliers in Cyprus are being warned that bookings are above expectations.

Tour operators in other European countries are being told that the British, who traditionally account for more than 40 per cent of Cyprus's visitors, have already booked many of the rooms.

Travel companies give the tourist office high marks for the speed with which it has acted. "Of all the tourist offices, they're probably the most responsive," says Mr Roger Allard, managing director of Owners Abroad, the UK holiday company.

Other operators are worried, however. Mr George Marcall, sales director of Airtours, another large tour company, insists his customers will get the holiday they booked. He is not certain all operators can say the same.

The alarm bells started ringing last month, when Cyprus's share of UK summer package holiday sales reached 12 per cent, double the previous year's level.

Mr Marcall says: "Cyprus has got a good infrastructure, the people are friendly and it has got guaranteed good weather. They've done themselves proud looking after the British people that have been on holiday there."

The island's hoteliers were, however, hit by the Gulf war last year. Worried about another poor season, many sold the same bed to more than one tour operator to *ensure that their hotels would be filled.*

Tour operators say there is nothing unusual about this; many hotels do it.

The difficulty is that, if current sales trends continue, there could be 800,000 British package tourists on the island this summer.

Mr Orestis Rossides, the Cyprus Tourist Office's London director, says there are only about 750,00 beds available for them.

Mr Rossides promises that no one will have to sleep on the beach. Most double booking is in the *cheaper hotels.* Tourists whose rooms fail to materialise will be moved to the less crowded four and five-star establishments – with the over-booking hoteliers forced to bear the cost.

Paul Tsongas (right) has narrowed the gap on Governor Bill Clinton (left), the front-runner for the US Democratic presidential nomination, according to the latest poll

Tsongas closes on Clinton

Continued from Page 1

Sam Nunn and most of the state assembly – have endorsed his candidacy.

But Mr Clinton needs a good score to show he has laid to rest the difficulties that have dogged his campaign – stories he describes as being about "a woman I didn't sleep with and a draft I didn't dodge".

In the south, with its conservative family values and strong military tradition, these issues could be more damaging to Mr Clinton than they proved to be in New Hampshire.

Maryland is shaping up as another vital battleground. Although virtually every elected official in the state below governor has endorsed Mr Clinton, Mr Tsongas has been picking up strength among more affluent, educated voters.

Boycott threat over S Africa poll

By Patti Waldmeir in Cape Town

SOUTH AFRICA's white supremacist Conservative party has threatened to boycott the referendum proposed by President F W de Klerk to test white support for a post-apartheid constitution.

Mr de Klerk's position in the poll could be strengthened by signs that his ruling National party and the African National Congress have moved closer to agreement on *an interim* government which would rule until a post-apartheid constitution was drawn up. A deal on interim government which gave the Nationalists a large share of power could help persuade reluctant whites to vote yes in the referendum.

The date of the poll – and the phrasing of the referendum question – are likely to be announced today or tomorrow. After several by-election defeats to the opposition Conservatives, who support a return to apartheid, Mr de Klerk is seeking a mandate to continue negotiating a new constitution within the multi-party forum called the Convention for a Democratic South Africa (Codesa).

The Conservatives refuse to negotiate power sharing with blacks. They have imposed conditions for participation in the referendum – such as vote counts by constituency, – and will decide whether to take part when the referendum question is announced. But to boycott the poll would seem a tacit admission of defeat.

Over the weekend, it emerged that negotiators had made rapid progress on the question of interim government, with the ANC believed to be ready to agree in principle to an elected interim government and executive, which would effectively be run jointly by itself and the government.

Pretoria is understood to have proposed that parties gaining at least five per cent electoral support would be represented in an interim legislature, while 15 per cent support would be required for entry to cabinet. In effect, this is likely to keep all parties out of the cabinet, apart from the ANC and the Nationalists.

The Nationalists appear willing to compromise on special representation for whites and other minorities in parliament for the interim period, because whites would be strongly represented in the executive. In a permanent parliament, domination by one political group (effectively blacks) would be prevented by devolving powers to regional governments and enforced multi-racial power sharing in cabinet.

The exact shape and duration of the interim government has yet to be agreed. The ANC is proposing a nine-month tenure while the government says it wants an indefinite period.

EC agrees to speed up the elimination of CFCs

Continued from Page 1

plan to introduce by the year *2000* a mixed carbon and energy tax in the EC, equivalent to $10 on a barrel of oil.

The US has so far dismissed the idea of using fiscal instruments to curb carbon dioxide emissions which cause global warming. Within the 12, consensus is growing that a unilaterally introduced tax would hit *EC competitiveness unless the* US and Japan adopted similar measures.

John Hunt writes: Imperial Chemical Industries, Europe's main CFC producer, welcomed the EC decision. The company has already said it will phase out production by 1995 and announced last week that by *1993 it will stop making CFCs* 11 and 12, the two main ozone-destroying products, at its UK plant in Runcorn, Cheshire.

On Friday Mr David Trippier, the UK's junior environment minister, will meet the representatives of the UK chemical industry to consider an ICI proposal that a national council be established to co-ordinate and speed up the phasing-out of CFCs.

The meeting will also include representatives of the refrigerator, building electronics and engineering industries.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	13	55	Belgrade	C	3	37	Cape Town		–	–	Edinburgh	S	9	48
Algiers	S	16	61	Berlin	C	7	[illegible]	Caracas	F	[illegible]	[illegible]	Faro	S	15	59
Amsterdam	S	10	50	Biarritz	[illegible]	12	[illegible]	Casablanca	[illegible]	18	64	Florence	F	11	52
Athens	Sn	2	36	Bombay	S	29	[illegible]	Chicago	S	0	32	Frankfurt	C	6	43
Bahrain	S	22	72	Bordeaux	S	11	52	Cologne	R	6	43	Geneva	F	6	43
Bangkok	C	33	91	Boulogne	[illegible]	10	50	Copenhagen	C	8	46	Gibraltar	C	14	57
Barcelona	S	12	54	Brussels	[illegible]	6	43	Corfu	S	7	45	Glasgow	F	10	50
Beijing	S	5	[illegible]	Budapest	C	6	43	Dallas	Fg	11	52	Helsinki	Dr	2	36
Beirut	[illegible]	8	46	Buenos Aires	F	24	75	Dublin	C	9	48	Hong Kong	S	[illegible]	[illegible]
Belfast	S	8	46	Cairo	R	19	[illegible]	Dubrovnik		–	–	Innsbruck	S	4	39

		°C	°F			°C	°F			°C	°F			°C	°F
Inverness	S	9	48	Luxembourg	F	3	37	Miami	R	22	72	Nice	S	[illegible]	[illegible]
Islamabad	F	21	70	Madeira	F	16	61	Milan	S	10	50	Nicosia	[illegible]	[illegible]	[illegible]
Istanbul	Sn	-1	30	Madrid	S	8	46	Montreal	Sn	-5	23	Oporto	S	12	54
Jakarta	R	32	90	Majorca	S	14	57	Moscow	[illegible]	[illegible]	21	Oslo	F	8	46
Jersey	S	9	48	Malaga	S	15	59	Munich	S	6	43	Paris	C	6	43
Johannesburg	S	24	75	Malta	S	12	54	Nairobi	S	29	84	Prague	R	3	37
Lima	F	28	82	Manchester	S	10	50	Naples	S	12	54	Reykjavik	[illegible]	0	32
Lisbon	S	11	52	Manila	F	32	90	Nassau	F	27	81	Rhodes	F	7	45
London	C	11	[illegible]	Melbourne	C	20	68	New Delhi	S	20	68	Rio de Janeiro	F	41	106
Los Angeles	S	19	[illegible]	Mexico City		–	–	New York	S	3	37	Rome	S	12	54

		°C	°F			°C	°F
Salzburg	C	7	45	Tenerife	F	18	64
San Francisco	S	9	48	Tokyo	F	6	43
Seoul	S	4	39	Toronto	C	0	32
Singapore		–	–	Tunis	F	15	59
Stockholm	C	7	45	Valencia	S	12	54
Strasbourg	F	9	48	Venice	S	8	46
Sydney	F	22	72	Vienna	R	8	46
Taipei	R	16	61	Warsaw	[illegible]	1	34
Tangier	S	16	61	Washington	S	5	41
Tel Aviv	C	16	61	Zurich	F	8	46

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday February 24 1992

INSIDE

Borrowing on capital markets hits record

Borrowing on the world's international financial markets in 1991 reached a record $518bn, a "remarkable achievement" in light of the poor performance of the world economy and widespread pessimism about the future, the Organisation for Economic Co-operation and Development says in its latest report on financial trends. Page 17

Saab on road to recovery

Saab Auto's 1991 results, to be announced today, will be better *than* most observers *expect, says Mr David Herman* (left), the company's *American-born chief* executive. But he is the *first to admit Saab Auto* has some way to go *before it starts* making an annual profit. "If we can *sell 100,000* cars this year, and the *exchange rate is at SKr6.50 to the dollar*, then we will be in profit," he says. Page 17

Grim prospects for textiles

They are leaner and many are fitter. But after a year of false and dashed hopes, UK textile companies are still unable to celebrate even the hint of a recovery. The results season which starts on Thursday with Courtaulds Textiles, the second biggest company in the sector, should confirm that 1991 failed to live up to expectations, and could indicate that prospects *for recovery in 1992 are equally grim.* Page 16

Alitalia cuts losses

Alitalia

Alitalia, Italy's national airline, sharply reduced group net losses to L34.5bn ($27.9m) last year from L97.7bn in 1990, in spite of the severe impact of the Gulf war on load factors. The company said the fighting in the Middle East was the main influence in a 4.6 per cent fall in international passenger traffic over the year. Page 17

Fed leaves trail of confusion

The US fixed-income market starts this week disheartened and confused by the latest thoughts and actions of the Federal Reserve and their implications for interest rates. On Tuesday, the Fed said it was cutting the proportion of checking account deposits banks have to hold as reserves from 12 per cent to 10 per cent. The following day, Mr Alan Greenspan, Fed *chairman, gave a distinctly upbeat* semi-annual report on the economy and monetary policy to *Congress.* Page 18

Market Statistics

Companies in this issue

BA-KLM talks reach critical stage

By Richard Gourlay in London, Paul Betts in Singapore and Ronald van de Krol in Amsterdam

MERGER talks between British Airways and KLM Royal Dutch Airlines have reached a critical stage after nearly breaking down last week over the shareholder structure of the proposed new company.

BA said last night, however, that talks were continuing to try to break the deadlock over price and the new ownership structure.

On Saturday KLM's supervisory board held an unscheduled meeting in Amsterdam after the long-running talks apparently ran into insurmountable difficulties.

The KLM chairman said in his airline's staff magazine last week that the talks continued to be bogged down on some difficult problems.

Neither side appears to have set a deadline for an agreement which would form a formidable force in international aviation.

The negotiations are blocked by KLM's insistence on holding a 40 per cent stake in the enlarged airline operation confining BA to 60 per cent. BA had sought 80 per cent with KLM holding 20 per cent, but is understood to be prepared to settle for 70 per cent with KLM holding the 30 per cent balance. The UK airline has made it clear it regards a 60-40 split as unacceptable.

BA last week reported a five-fold increase in third-quarter profits to £100m ($175m) and is concerned that its overall size and profits potential is adequately reflected in the new shareholding structure. The Dutch are equally concerned not to give up control of the national flag carrier at a price that airline analysts would describe as a "sell-out" to BA.

Failure to reach agreement on the merger would be a blow for both airlines and their effort to forge a global alliance.

KLM would provide BA with a new European hub in Amsterdam as well as an equity interest in Northwest Airlines of the US. Partnership with BA would enhance KLM's competitiveness against other bigger continental European carriers like Lufthansa and Air France.

Failure would also come at a time of consolidation among other European airlines with Belgian authorities expected soon to approve Sabena's proposed link with Air France.

BA originally attempted to negotiate a partnership with Sabena of Belgium, but the talks collapsed. Air France plans to invest in a large *minority stake* in the Belgian carrier.

BSN's counter-bid intensifies pressure on the Agnellis, writes Alice Rawsthorn

Gloves come off in battle for Exor

The battle between Nestlé of Switzerland and the Agnelli family of Italy for Perrier, the French mineral water company, is set to come to a head following last Friday's intervention by BSN, the French food group.

BSN sent a clear signal that it was siding, not with its old allies, the Agnellis, but with Nestlé, its *chief competitor, by announcing* a FFr6bn ($1.07bn) counter-bid for Exor, *the French property* company that controls Perrier and for which the *Agnellis have already* agreed terms for a FFr5.6bn friendly takeover.

The BSN counter-bid is clearly designed to intensify pressure on the Agnellis to negotiate a settlement in the Perrier battle which has been brewing since Nestlé launched its FFr13.42bn hostile bid four weeks ago. "Nestlé wants Perrier. We want Volvic (one of the Perrier waters). The Agnellis want to make a profit. If we negotiate we can all get what we want," said Mr Antoine Riboud, BSN's veteran *chairman.*

Meanwhile, the outcome of two French court cases will be critical for Nestlé in determining its negotiating power. The commercial court in Nîmes is expected shortly to deliver its judgement on whether Exor can exercise full voting rights over its 35 per cent of Perrier. The second case starts this Tuesday in Paris when the commercial court considers Nestlé's appeal to annul the recent acquisition of 14 per cent of Perrier by Saint Louis, the French sugar company allied to the Agnellis.

Unless Nestlé wins at least one case, its bid will fail, given that *Exor and Saint Louis control* 49 per cent of Perrier. Nestlé would be a minority investor at loggerheads with the management.

If Nestlé wins one or both cases, it will fight for shareholder support against the Perrier board, chaired by Mr Jacques Vincent, also chairman of Exor. Mr Vincent would have to decide whether to take on Nestlé with a counter-bid for Perrier by Exor. He may be forced to anyhow, after a ruling due on Thursday by the French stock market authorities.

Antoine Riboud of BSN (left): taking on former ally Gianni Agnelli in his family's drive into France

The alternative would be for the Agnellis to succumb to pressure from Nestlé and BSN to negotiate a settlement. BSN and Fiat have cross-shareholdings and the two companies have significant joint interests in the Italian food industry.

Nestlé first tried this approach *when it met the Agnellis in Italy* in January when the Agnellis *were in the early stages of their* friendly bid for Exor. The bid, begun as a partial offer for 66 per cent of the company, had already run into controversy in France after complaints from minority shareholders, notably the Suez industrial group.

Also at the meeting was Lazard Frères, the Parisian bank which, as a long-standing adviser to the Agnellis and the biggest single shareholder in BSN, had been instrumental in fostering their joint interests. Lazard and BSN had supported the Agnellis's diversification into France until early last year when the Italians bought a stake in Exor without consulting them.

Lazard became anxious about its relationship with the Agnellis. Nestlé was concerned that the Agnellis's *Exor bid would scupper its hopes* of buying Perrier, but the Agnel*lis decided* to continue to support the existing management under Mr Vincent.

That prompted Nestlé's hostile bid for Perrier in conjunction with Indosuez, part of the Suez group, in which it was advised by Lazard.

Nestlé has continued to press for negotiation. Last Monday in Paris Mr Riboud met Mr Gianni Agnelli of Fiat and older brother of Umberto, who has led the family's drive into France.

Mr Riboud suggested a solution. BSN would bid for Exor and give its Exor shares to Nestlé in return for Volvic. Nestlé would give those shares back to the Agnellis in return for a 20 per cent stake in Perrier. Mr Agnelli did not respond. So, on Friday, BSN counter-bid, supported by *Lazard and Indosuez.*

Mr Riboud described the count*er-bid* as a strategic move to "step up the pressure on the *Agnellis* to persuade them to negotiate." Both he and Mr Domeniconi say they are convinced the Agnellis would negotiate if it were not for Mr Vincent's objections.

They may also hope to play on any rift between Mr Gianni Agnelli and Umberto whom he has reluctantly named as his heir apparent at Fiat.

So far Mr Umberto Agnelli, as head of the family's French interests, has called the shots in the Perrier affair, but it is his older brother who takes the decisions as illustrated by his meeting last Monday with Mr Riboud.

It remains to be seen whether the gamble will come off. The BSN counter-bid could make it more difficult for the Agnellis to negotiate without being seen to *lose face. This could be what* their opponents want. After all, *BSN, Suez and Lazard resent the* Agnellis' investment in Exor.

This raises questions about the wider implications of the Agnellis's ambitions in France and for the future of their joint interests with BSN in Italy. Mr Riboud maintains the Italian ventures will not be affected by the counter-bid. "France is France. Italy is Italy," he said. He should soon discover if the Agnellis agree.

LSE poised to alter rules on disclosure

By Richard Waters in London

THE London Stock Exchange is poised to drop its requirement that market makers publish details of large trades, reversing a move to greater transparency taken a year ago.

However, the exchange's board is also due on Thursday to *approve stricter disclosure* requirements for trading in overseas stocks on London's successful SEAQ International.

The decisions will re-open the dispute over disclosure in the *London market. One large trader* said the SEAQ decision could drive business abroad.

Market makers claim too much visibility alerts others to their positions, exposing them to loss.

In the past, however, the Securities and Investments Board and the Office of Fair Trading *have pushed for greater,* rather than less, disclosure. Publication of trades has also become the central issue in the row in the European Community over the proposed Investment Services Directive.

At Thursday's meeting, the exchange's board will consider three important changes to London trading:

● Details of large trades, which have to be published within 90 minutes, will no longer be disclosed. Instead, an hourly indication of trading volumes will be published on the exchange's "ticker". The next day, the range of prices at which each stock was traded will be disclosed.

The SIB and OFT are thought to be *more* sympathetic *to the* exchange's plans than three years ago, when a switch *to* delayed trade publication prompted criticisms that London was returning to its pre-Big Bang "jobbers' cartel".

Identical rules will be adopted for SEAQ. At present, the only information published is the total daily trading volume in each stock, disclosed the next day.

Bringing the UK and international markets together is part of the exchange's strategy to create a European market in London.

● Arrangements will be introduced to protect private shareholders, who otherwise would suffer from the lower visibility.

● The exchange plans to introduce a central "limit order book" on which investors can lodge prices at which they want to buy and sell stocks. When a large trade passes through the market at a better price, individual investors' orders will be given priority and completed automatically.

A similar arrangement operates in New York and Paris.

The challenge facing Asia's growth cycle

Economics Notebook

By Alexander Nicoll

If Japan sneezes, will Asia catch a cold? The question arises because recent years have seen increasing investment by Japanese companies *in production capacity in other* Asian countries, and a sharp rise in trade in the region.

Economists talk of Asian economic growth being self-generating, with rapid development fostering markets for Asian-produced goods within Asia. This would make the area less vulnerable to cyclical swings elsewhere in the world.

The fast-growing countries of the region – the four newly industrialising economies and their aspiring rivals in south east Asia – have proved fairly resilient to the recession in the US, upon which they once depended for export markets.

However, a severe slowdown in Japan, the region's largest and most developed economy, could engender fears the whole process of Asian development might be undermined.

Many Japanese companies suffering unprecedented pres*sures on profits – like Sony* which last week forecast an operating *loss for its current* financial year – have transplanted much *of their production* to countries such as Indonesia, *Malaysia* and Thailand. Japanese electronics companies have set up about 600 plants in the Asia/Pacific region outside Japan.

Asia's remarkable development is stratified: Japan's factories develop and produce the newest, highest technology goods. These become standard products. Switching manufacture abroad leaves home plants to turn to the next stage of technology. In recent years, not only Japanese but also Korean, Taiwanese, Singaporean and Hong Kong companies have invested substantially in this manner.

In theory, this should result in significant transfer of technology and management skills, though evidence of this occurring seems questionable. If it were, it would help provide a base for self-sustaining development in countries receiving investment. It should also increase "layering" of development as, for example, Thai industry in turn farms out production to Vietnam.

The process depends on constant development of new technology in the countries originating investment, especially Japan. Here, views are divided about the future. Though Japan is looking ahead to new products such as high definition television and mini-compact discs there are some doubts about whether these will have blockbuster impact.

On the other hand, production and sales of electronic consumer goods are high and markets are growing, especially in Asia.

The market for lower value-added products such as refrigerators and air conditioners could continue to expand as markets like China and India open up. So the prospects for the new industries of south east Asia may remain healthy.

For some economists, a sign that growth will feed on itself is the development of sub-zones, each including a technical, *financial* and marketing services base and an area of cheaper labour.

Prof Edward Chen, director of the Centre of Asian Studies at Hong Kong University, sees five such zones developing:

● South China zone, centred on Hong Kong and including four southern provinces of mainland China and Taiwan;

● Yellow Sea zone, including South and North Korea and north east China;

● Japan Sea zone, which adds Japan and Asiatic Russia to the Yellow Sea zone;

● "Greater Indochina" zone, centred on Thailand and including the Yunnan province of China, the three Indochina countries and Burma;

● The "growth triangle" of Singapore, the Malaysian state of Johore and Indonesia's Batam island.

The last of these is being fostered by government impetus. The others are developing mainly through private sector initiative and, as can be seen, *circumventing political barriers.*

The most striking and well developed is the South China zone. Hong Kong industrialists estimate there are 25,000 factories in Guangdong province either owned by or sub-contracting for Hong Kong manufacturers. They employ 3m Chinese workers.

Though this creates the prospect of endogenous growth within Asia, the reality is that the mainstay of development is *export of manufactured goods* to the developed world.

Mr Quek Peck Lim, head of research at Morgan Grenfell Asia Securities in Singapore, says: "The last 10 years have underwritten some degree of growth over and above vulnerability to the OECD countries." *A major economic shock in the* west would not cause a collapse in most Asian economies as it would have done 20 years *ago, he says.*

For the foreseeable future, *however, access to western* markets remains crucial, *which is why Asia views* anxiously European integration and the north American free trade agreement.

Its most effective response to these will be a continuing drive to export goods as competitively as possible.

Attempts at trade agreements within Asia have not got far because, in spite of the development of the cross-border zones, Asian countries mainly compete with each other for markets outside the region and do not want to risk upsetting customers. The recent accord between south east Asian nations may, however, have some importance as intra-regional trade grows.

The sluggish economies of the US and Germany, more than that of Japan, lead forecasters to predict slower growth *for most* Asian economies this year.

Ms Sarah Hewin, *senior* economist at American Express Bank in London, is predicting an average of *between 4 per cent and 6 per* cent growth for the NIEs and *south east Asian countries* compared with between 6 per cent and 8 per cent for 1991 – though this masks significant divergences and special factors. Indonesia and South Korea are still wrestling with inflation and other overheating problems, while Hong Kong and Taiwan will be boosted by big spending on infrastructure.

Nevertheless, the region remains extraordinarily dynamic. Economic reforms in China – and in the hitherto insulated south Asian countries particularly India – suggest further rapid growth, increasingly generated within the region.

Asian governments need to ensure investment and trade climates continue to improve, that overheating is kept in check, and strains on infrastructure are eased and anticipated.

NFC sees flat profits at year-end

By Norma Cohen, Investments Correspondent, in London

NFC, the UK freight and transport group, is unlikely to see any real improvements in earnings in 1992, with pre-tax profits forecast roughly steady at between £90m ($157.5m) to £100m in the year to September 1992 against £93.7m the previous year.

Mr James Watson, chairman, said: "At the start of the new year, we had expected some recovery. We are not seeing that now."

He said NFC, 45 per cent owned by its employees, managers and pensioners, planned further redundancies and cutbacks in its trucking fleet in the second *quarter. In the first* quarter ended January 25 1992, *it made 500 people* redundant at a cost of £4m.

If economic activity fell further, he said, profits would be *at the low end of the forecast.* NFC is forecasting 1992 earn*ings per share at 13.0p to 14.5p* against 13.6p in 1991.

Yesterday, the company announced first-quarter profits of £18.8m, against £18.1 a year ago, and increased its dividend to 1.30p per share.

The higher earnings are largely due to improvements in the Excel Logistics division which provides transportation and warehousing facilities for goods sent from manufacturers to distributors.

NFC's traditional transport division reported a 22 per cent fall in operating profit with truck and trailer rentals continuing at low levels. In the home services division, turnover rose 12 per cent while profits fell 16 per cent, partly reflecting investment in information technology in the US.

All 1991 figures have been adjusted to reflect the sale of *Pickford's travel agency.*

Redland to attack Steetley values

By Richard Gourlay

REDLAND, the building materials group, is to sharpen its attack on Steetley, the target of its £626m hostile bid, following the collapse of joint venture talks between Steetley and Tarmac last week and the resignation of its prey's broker, Cazenove.

In particular Redland will focus on asset valuations and will claim that Steetley's acquisition of Gobitta for £92m in 1990 overvalued the private French aggregates company.

The attack is aimed to pre-empt Steetley's defence document, which is due late this week once the Office of Fair Trading has accepted Redland's undertakings on the disposals of plant in areas where it would have a dominant position after a successful bid.

Mr Gerald Corbett, finance director at Redland, said that while some of Steetley's UK assets could be revalued, as they had not been adjusted since 1984, the French assets may be worth less than book value.

Gobitta has 150m tonnes of sand, gravel and limestone reserves, but permission to extract only 40m of this had been received. Furthermore some of the limestone reserves appeared contaminated and Steetley did not appear to be going ahead with extraction on some permitted sites, Mr Corbett said.

At the time of the Gobitta acquisition, analysts in the UK were not told that only 40m of the 150m tonnes had received consent for extraction, as a result of what a Steetley adviser called "an error of translation" from the French contract by an eminent City firm of solicitors.

Gerald Corbett: French assets may be worth less

The adviser said Steetley had only made part of the payment to Gobitta. He would not be drawn on speculation about the group's asset values but said that Redland was only able to judge the French sites by "looking at them over the fence."

After the Monopolies and Mergers Commission's decision to refer the Tarmac joint venture last week – a decision which triggered the collapse of the joint venture – Steetley still had the finest and lowest cost brick producing company in the country, the adviser said.

Decision on Chelsea ground likely this week

THIS WEEK looks like being a crucial one for Cabra Estates, the property company which owns Stamford Bridge, home of Chelsea football club, writes Jane Fuller.

Tomorrow, SB Property, which is 83.5 per cent owned by Cabra, will seek a High Court injunction to force Chelsea to pay £22.85m for the ground.

The price was set by an independent valuer last November and it relates to Chelsea's 1988 exercising of an option to buy.

A case involving a counter-claim for damages from Chelsea, which Cabra *has applied to the court to strike out*, may also be heard.

Chelsea, which is chaired by Mr Ken Bates, is taking other legal action. It wants to buy Stamford Bridge, but Mr Bates has yet to give any details about finance.

Mr John Duggan, Cabra's chairman, said the aim was to get Chelsea to complete the contract. If it did not, action would be taken against it.

Eviction of the first division club is one possibility.

Cabra, which last year lost £11.3m pre-tax and had year-end debt of £52m, has delayed the publication of its interim *results for more than two months because* of the uncertainty over Stamford Bridge.

The figures for the six months to September 30 are due to come out on Thursday. In the first half of 1990-91, the company lost £5.24m.

Its share price has fallen to 7p from nearly 120p in mid-1989, when Mr Duggan became chairman after the takeover of Marler Estates which brought in both Stamford Bridge and Craven Cottage, Fulham football club's ground.

This month has seen further buying of Cabra shares by Mr Ashraf Marwan, an Egyptian financier, who now owns about *27 per cent.*

Brooke Tool passes final dividend after £1.3m loss

THE SHARE price of Brooke Tool Engineering almost halved to 7¼p on Friday as it announced a £2.6m downturn to a loss of £1.3m, the passing of the final dividend and a change in top management.

By mutual agreement Mr Idris Jones has stood down as managing director and will not seek re-election as a director. He has been with the group for 21 years.

Mr John Dashper has been appointed chief executive.

The group, which as its main activity supplies consumables to the engineering industry, saw its profit fall to £80,000 at the operating level, compared with £2.39m last time.

Turnover fell from £28.8m to £25.3m as UK sales dropped 20 per cent with margins in certain areas moving towards "unacceptable levels". However, exports rose 14 per cent and now represent 30 per cent of total sales.

Charged in the loss were relocation and redundancy costs of £408,000 and interest payments of £968,000 (£1.09m). The workforce was reduced by 18 per cent in the year and by a further 10 per cent to date.

As part of the reorganisation and rationalisation, plans had been made to dispose of certain non-core assets to enable gearing to be restored to a more acceptable level and one major sale was being negotiated.

Many product areas had remained strong and maintained market share.

Losses per share came to 2.5p (earnings 2.2p). Omission of the final dividend means the total is 0.25p (1.225p).

Taveners recommends Toms' offer

Taveners, the manufacturer of sugar confectionery, has recommended to shareholders a 165p per share cash offer – which values it at about £4.8m – from Toms Fabrikker, a Danish maker of luxury chocolate and confectionery.

Toms has received irrevocable undertakings to accept in respect of 1.56m shares (nearly 54 per cent).

In the same announcement Taveners unveiled a surge in pre-tax profits to £400,000 for 1991 (£81,000) in spite of a £325,000 decline in sales to £13.4m.

A special interim dividend of 6p has been declared.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Brooke Tool ....fin	nil	-	0.5	0.25	1.225
Eng/O'seas Prop ....fin	0.5†	-	0.5	1	2.5
Foreign & Col ....fin	0.6‡	Apr 3	0.2	0.6‡	0.2
Lloyds Bank ....fin	11.3	May 6	10.3	16.7	15.3
New Throgmorton ...int	1.5	Apr 24	-	☆	8
Tribune Inv ....fin	4.5	Apr 10	4.2	6.2	5.9
Usher (Frank) § ......int	2	Apr 3	1.5	-	4

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡Includes 0.2p special payment. ☆Makes 4.5p to date.

Management buys Budge mining side for £106.5m

By John Hunt, Environment Correspondent

A £106.5m management buy-out of the mining division of AF Budge, the civil engineering and open-cast mining group, was completed over the weekend.

The buy-out of Budge Mining, the biggest of the open-cast contractors to British Coal, was headed by Mr Richard Budge, one of the two brothers running the AF Budge group.

Finance of over £45m for the buy-out was underwritten by a consortium of investors including Schroder Ventures, Midland Montagu Ventures, Charterhouse Development Capital and Prudential Venture Managers.

They are the shareholders of the new mining company, together with its senior management and Mr Budge, who will remain managing director.

Debt finance of £40m was underwritten by Bank of Scotland and Morgan Grenfell.

Mr Tony Budge, chairman and managing director of the AF Budge group, said yesterday that the disposal of the mining division was consistent with the Budge board's strategy of concentrating on civil engineering, where the group was a major UK road builder.

The buy-out would, he said, considerably reduce the overall level of borrowing of the group.

The group was currently tendering for a number of major motorway and building contracts and it was anticipated that turnover for 1992 would be in the region of £200m. In 1991 it was £270m, of which £80m came from open-cast mining.

He said that type of mining was very capital intensive and involved equipment costs of £70m. However, he thought that demand for open cast coal would still be strong.

The buy-out was the result of an amicable arrangement between the two brothers.

Mr Richard Budge relinquishes his position as deputy managing director of the group, but would still be on the board of Sheffield Airport, where it was proposed to build a short take-off and landing airfield.

Textile recovery dependent on the domestic consumer

Daniel Green looks at prospects for the industry

THEY ARE leaner. Many of them are fitter. But after a year of false and dashed hopes, UK textile companies are still unable to celebrate even the hint of a recovery

The results season which starts on Thursday with Courtaulds Textiles, the second biggest company in the sector, should confirm that 1991 failed to live up to expectations, and could indicate that prospects for recovery in 1992 are equally grim.

In the closed season ahead of the figures companies are not allowed to talk about trading. But City analysts are in no doubt that life in the textiles business remains tough.

"We are not looking for any material domestic volume growth this year," says Hoare Govett. SG Warburg has reduced profit forecasts across the sector for both 1992 and 1993.

Textile companies have been hard at work cutting costs. With falling interest rates, this should limit the damage to pre-tax profits.

Much of the cost control has come in the form of job losses. The biggest textiles company, Coats Viyella, which reports its final results at the end of March, has laid off more than 10,000 people over the last three years. Courtaulds Textiles cut its workforce early in the recession because it was working on "pessimistic assumptions", says its chief executive, Mr Martin Taylor.

Some aspects of the recession have underpinned margins, if not volumes:

- Retailers are demanding rapid changes in designs, short production runs, just in time delivery and better quality control. They are prepared to shun the cheapest segment of the market to achieve this, and higher unit prices can mean better margins.
- Falling inflation eases one of the long term structural problems in the textile industry, that of runaway costs. General inflation is historically higher than the rise in the price of clothes: since 1982 clothing and footwear prices have risen by less than a quarter while the retail prices index is more than 70 per cent up
- A fall in wool and cotton prices – raw cotton is about one third cheaper than six months ago – has reduced costs for some. And the continued love affair with natural fibres helps repeat sales because artificial fibre mixtures last longer, says Mr David Parker, chairman of Sherwood Group, the third biggest UK sock maker.

Textiles companies face increased reliance on their biggest customer, Marks and Spencer. It has suffered less than many of its high street rivals in the recession and plans to increase the number of its outlets in the rest of Europe.

The buying power of M&S is one factor that is encouraging the continued consolidation of the UK textiles industry. Coats Viyella is the largest non-food supplier to M&S. Last year it bought thread-maker Tootal after a bitter takeover battle. If Coats' results next month show substantial savings as a result of the acquisition, the commercial pressures for more mergers can only increase.

Yet these considerations may have only a marginal effect on the fortunes of the industry. The performance of the economy as a whole remains uppermost in executives' minds. "The most important factor in this business is still domestic consumer confidence," says Mr Colin Purvis of the British Textiles Confederation.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Epic (UK/Germany/Italy)	Roduch (Holland)	Insurance	£205m	Royal Insurance selling
Sorin Biomedica (Italy)	Dhiley (US)	Bio-Engineering	£131m	Continues repaid expansion
Bespak (UK)	Tenax Holding (US)	Medical components	£35m	Following pharmaceuticals sector
Iveco (Italy)/Tatra (Czechoslovakia)	JV	Industrial vehicles	£23m	Iveco taking 51%
Robert Jepson (US)	Unit of Pilkington (UK)	Lens equipment	£23m	Non-core sales continue
ECC Group (UK)	Flanagan Readymix (US)	Building materials	£11.6m	ECC ahead on aggregate
Polyfinance (France)	Polymark International (UK)	Laundry equipment	£9.4m	Recommended cash offer
Bodycote International (UK)	Industrial Materials Technology (US)	Metal technology	£8.3m	Two-pronged purchase
Toms (Denmark)	Taveners (UK)	Confectionery	£4.8m	Recommended offer
Johnston Group (UK)	Unit of FMC (US)	Cleaning equipment	£3.3m	Swoop for road sweeper

Source: FT Mergers + Acquisitions International

APPOINTMENTS

Max factor and Mahony

David Mahony, chairman of control systems group Harland Simon for ten years until 1990, returns to chair the board following the retirement of Roy Ashman, who had been chief executive, and chairman since the end of 1990.

Harland Simon, holder of a Best British Company award for its performance over the past five years, issued a profits warning just over a week ago, which resulted in the share price tumbling from 585p to *173p last Friday. The collapse* of the Maxwell empire has cost it some £2.75m, and other important high margin contracts have also failed to emerge.

Mahony, who is currently very occupied reassuring institutional shareholders, is also an industrial adviser to *Hambros Bank, chairman of* Applied Holographics and on the board of a number of private companies. Hinting that his reappearance in the chair may be relatively brief, he says the company is looking for other board members. While he sold a sizeable chunk of his shares last October, Mahony says he was back buying in the market recently "to demonstrate this is not a one-way trade".

Harland Simon, which supplies drive controls to most UK dailies, has already had a costly brush with Polly Peck and a Turkish newspaper venture. Mahony sums up the position: "Our difficulty lies with the sort of people who go round buying newspapers."

Shuffle at S&N

Hugo Page Croft on Fridayresigned from the board of Scottish & Newcastle and his post as managing director of its wholesale beer business. The company refused to comment on the reasons for his *departure.*

Page Croft, 47, had been a member of the board since 1988. He joined S & N in 1985 when the brewer acquired Moray Firth Maltings, of which he was a founder-director. From 1986-88, he was md of William Younger, one of S & N's operating companies.

Guy Dickson, 46, present md of Scottish & Newcastle Sales, will replace Page Croft with effect from May 4. A South African, he joined the company in 1979 as retail marketing manager.

■ Bruce Sinclair is to become md of DELL in the UK and vice-president for Northern Europe.

■ Frank Iveson, formerly md, has been promoted to vice-president for Europe, VENTURA SOFTWARE, a Xerox company.

■ Eugene Cheng has been appointed md of ACER's operations in the UK.

■ Andy MacDonald is appointed director of sales for Europe for SPECIALIX.

■ Sir Frank Holroyd, recently retired as chief engineer and chief of logistics, Royal Air Force, has been appointed chairman of COMPOSITE TECHNOLOGY which specialises in overhaul and the repair of helicopter rotor blades.

■ Ron Chesterton has been appointed director of marketing for UNISYS UK.

■ John Miller, currently director of operations with Hutchison Microtel, has been appointed information systems director of LEEDS PERMANENT Building Society. He joins in April and will succeed Peter Lumb who retires in July.

Non-executive directors

The following appointments have been announced:

■ Jim Clark at CAIRD, having ceased his executive duties.

■ Sir David Rowe-Ham at HOSPITAL CORPORATION INTERNATIONAL.

■ *Sir Philip Shelbourne* is resigning from Allied-Lyons.

■ Douglas Rogers, chairman of Newman Tonks, at BROMSGROVE INDUSTRIES.

■ Sir Neil Macfarlane MP at SECURICOR, whose headquarters are in his constituency.

■ Patrick Dineen at SILVERMINES.

■ John Padovan, chairman of Mabey Holdings, at WHITBREAD.

■ Robin Miller and Tim Schoonmaker at TRANS WORLD COMMUNICATIONS.

■ Lawrence Ziman at RATNERS.

■ Cedric Brand retired from TILBURY DOUGLAS.

■ Nicholas Roditi at RIT CAPITAL PARTNERS.

■ Marsh & McLennan Companies, the world's biggest insurance services group, has announced a reorganisation of its senior management team, which entails a promotion for Philip Wroughton, 58, the London broker who has been deputy chairman of the group's brokerage division since 1988. Wroughton joined CT Bowring, acquired by Marsh & McLennan in 1980, in 1961 and is well known in the London market as a reinsurance specialist.

Separately, David Holbrook and John Sinnott are named co-chief executive officers of Marsh & McLennan Inc, while Robert Clements, former chair*man and ceo of the brokerage* division, joins the main holding company as vice-chairman. Wroughton is a member of the council of Lloyd's, the governing body of the Lloyd's insurance market.

■ John Chisholm, who moved from the private sector last *year to head the government's* new Defence Research Agency (DRA), is taking Mike Goodfellow, a long-standing former colleague at the Sema software group, to join him as commercial director. The agency comprises four military research establishments and was set up with semi-autonomous status *to improve cost-effectiveness* and put facilities to better use, including for non-government clients.

Goodfellow, 43, is being seconded from his job as technical director at BAeSema, a joint venture between Sema and BAe. The DRA has also appointed Graham Love, 37, as director of finance. He moves from Shandwick, where he was group financial controller.

CS First Boston returns to health with $215m net

By Martin Dickson in New York

CS FIRST BOSTON, the global investment bank which suffered heavy losses and internal upheaval in 1990, will today underline its return to health by reporting net earnings of $215m for 1991.

The New York-based firm is a subsidiary of Crédit Suisse, the Swiss bank, which in 1990 had to launch a financial bail-out for CS First Boston when its $1.2bn exposure to troubled corporate "bridge loans" prompted a Wall Street crisis of confidence in First Boston's liquidity.

The 1991 profit compares to a loss of $587m in 1990, when it took provisions against exposure to the bridge loans and the property market, and suffered a difficult trading year and a round of cost-cutting. It made just $11m in 1989.

Last year's figures are broadly in line with sharply increased profits reported by many investment banks, thanks to strong equity and debt markets. However, First Boston may have been more conservative than some rivals in committing funds to trading on its own account, which was a particularly profitable Wall Street activity in 1991.

Mr John Hennessy, chief executive, said the group's two biggest operating units – Crédit Suisse-First Boston in Europe and First Boston Corporation in the Americas – had contributed roughly equally to profits, with a smaller but positive contribution coming from the group's growing Asian operation.

He added that 1992 had got off to a good start, and that January's worldwide results had been "some of the strongest we have ever recorded".

The upheavals of 1990, including staff cuts or defections and a shrinking balance sheet, led some analysts to question whether First Boston would be able to retain the strength of its franchise as one of the world's pre-eminent investment banks.

However, the company points out that 1991 league tables compiled by Securities Data show it placed second in global debt security underwriting, third in global underwriting of common stocks and initial public offerings, and third in global announced merger and acquisition transactions.

During the year, its equity capitalisation rose 21 per cent from $706m to $856m, while all the company's bridge loans have now been permanently refinanced. It received $535m in cash last year from the sale of some of these investments.

Borrowing on capital markets hits record

By Norma Cohen, Investments Correspondent

BORROWING on the world's international financial markets in 1991 reached a record $518bn, a "remarkable achievement" in light of the poor performance of the world economy and widespread pessimism about the future, the Organisation for Economic Co-operation and Development said.

However the boom in borrowing was restricted largely to international bond markets, says the OECD's latest report on Financial Trends.

By contrast, syndicated bank credits fell to $113.2bn, their lowest level since 1987, as borrowing costs rose sharply. In 1990, $124.5bn in syndicated bank credits were recorded.

The sharp drop in bank lending reflects growing anxiety about credit quality internationally, the OECD said. That anxiety, coupled with the effects of capital adequacy guidelines, has stiffened margins and fees to their highest levels since the early 1980s.

The overall borrowing picture, however, brightened towards the end of the year when higher-rated corporations found it easier to raise funds for capital expansion or restructuring. Thus, while conditions remained difficult for highly-leveraged or non-prime borrowers, there are signs that the rise in fees may be tapering off.

Meanwhile, the dip in long-term interest rates appeared to have fuelled the boom in all forms of bond issues, including equity-linked securities. Following a sharp decline in 1990, these surged by 30 per cent to $41.3bn, largely reflecting a pick-up in borrowing by Japanese corporations.

On the bond markets, there was a shift in the growth patterns of currencies, with so-called traditional issuing currencies lagging well beyond newer ones. In particular, Ecu-denominated bonds surged by 78 per cent over 1990, despite the uncertainties over negotiations on the treaty on European Monetary Union.

Banks strike deal on loans to BNL unit

FOREIGN bank creditors to Agrifactoring, the Italian factoring concern linked to the troubled Federconsorzi farm services group, are set to be repaid their outstanding loans in full, writes Haig Simonian.

The agreement concludes one of the most acrimonious episodes in relations between Italian and foreign banks in recent years, and should restore harmony to links between foreign financial institutions and the state-owned Banca Nazionale del Lavoro (BNL) in particular.

Foreign bank creditors to Agrifactoring, which is 50 per cent owned by the BNL group, had taken the bank to task over its refusal to repay loans to Agrifactoring following the collapse of Federconsorzi last year. BNL disclaimed responsibility for Agrifactoring.

Under the compromise, BNL, along with Banco di Santo Spirito and Efibanca, the two other Italian bank shareholders in Agrifactoring, will subordinate their L429bn ($346.5m) lending to Agrifactoring to that of other financial institutions.

Alitalia cuts deficit

By Haig Simonian in Milan

ALITALIA, Italy's national airline, sharply reduced group net losses to L34.5bn ($27.9m) last year from L97.7bn in 1990, despite the affects of the Gulf war on load factors.

The war was the main factor in a 4.6 per cent fall in international passenger traffic over the year, the company said.

Overall, passenger numbers fell to 17.28m in 1991 from 18.20m the previous year. The load factor slipped to 61.3 per cent from 64.5.

Alitalia's group turnover rose 7 per cent to L6,000bn last year. The company estimated that the Gulf fighting caused a L280bn loss of potential sales. At parent company level, turnover increased by 5.4 per cent to L4,700bn, while losses declined to L43.7bn from L114.2bn in 1990.

Alitalia's performance was boosted by an undisclosed number of aircraft sales during the first half of last year, which improved cash flow and generated revenues of L177bn at group level. However, the company stressed it had also kept tight control on costs, with measures to improve efficiency contributing L50bn for the group.

Part of the savings came through job cuts, with a fall of almost 1,100 in staff numbers at the parent company.

NRI TOKYO BOND INDEX

[illegible]	13/02/92	Average yield (%)†	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	170.48	5.56	170.52	165.51	158.76
Government Bonds	168.97	5.45	169.03	163.51	156.67
Municipal Bonds	172.04	5.96	172.36	167.97	160.81
Govt.-guaranteed Bonds	174.67	5.91	174.75	170.32	163.34
Bank Debentures	166.47	5.29	166.48	161.82	155.61
Corporate Bonds	173.15	6.31	172.93	168.71	161.87
Yen-denom. Foreign Bonds	177.26	6.87	177.64	172.87	166.50
Government 10-year†	5.66		5.66	6.02	6.42

† Estimated par yield

Source: Nomura Research Institute

Saab Auto on the road to recovery

Robert Taylor on chances for a turnround at the Swedish-US venture

Saab Auto's 1991 results, to be announced today, will be better than most observers expect, says Mr David Herman, the company's American-born chief executive. But he is the first to admit Saab Auto has some way to go before it starts making an annual profit.

"If we can sell 100,000 cars this year, and the exchange rate is at SKr6.50 to the dollar, then we will be in profit," he says. But in 1991 Saab sold only 87,500 units and its main markets – the US, Britain and Scandinavia – are where the recession is at its deepest.

This year's sales outlook remains grim even if Saab is doing better than other foreign car-makers in the US market. Only a few days ago, the company announced temporary six-hours-a-week production cutbacks would continue until the end of April.

Ever since early 1990, when Saab Auto was formed as a jointly-owned partnership between Saab-Scania and General Motors, it has been grappling with financial difficulties.

In its first three months of trading, pre-tax losses were SKr996m ($166m), while for the whole of 1990 a deficit of SKr4.64bn almost wiped out the company's original SKr6.4bn equity capital.

Mr Herman was compelled to shut down Saab's new SKr1.3bn assembly plant in Malmo, in southern Sweden, early last year. He also had to push through a tough rationalisation programme which will have cut the payroll by more than a third by the end of this year.

By last autumn, the size of Saab's losses began to decline – with a SKr699m deficit in the second quarter of 1991 and a loss of SKr574m in the third quarter – despite flat sales and heavy start-up costs for the Saab 9000 CS model.

The company was helped with a SKr5.5bn cash injection from its joint owners last June, while in the autumn Saab Auto raised $750m through a syndicated financing for its planned product and marketing developments in the 1990s.

It has been an uphill struggle, however. A plain-speaking, though modest, man, Mr Herman was "shocked" at what he saw in Saab's plants when he first arrived. "I just could not see what everybody was doing. There were too many people with unclear work assignments," he explains.

David Herman: "I am not a saviour"

Saab was also being crippled by a 25 per cent annual job turnover rate, and more than 10 per cent daily absenteeism among its blue-collar workers.

Contrary to expectations, however, he did not march in and impose a GM management style on the company. Instead, he sought to work with, and not against, the grain of Swedish labour practice.

He focused on cutting costs and boosting productivity through greater efficiencies, turning Saab's independent work groups into teams with "continuous training", and developing jobs with career prospects. Wage differentials based on merit and skill have been introduced. Managers are more integrated into the production process.

Saab's performance has certainly improved. Productivity is up, with a cut in production time per car from 85 hours to 60 hours. This has brought Saab more into line with European levels of output, though it still lies far behind the 30 hours achieved in some Japanese plants. Staff turnover is down to 8 per cent a year and absenteeism to 5 per cent.

Synergies in product development between Saab and GM, as well as joint sourcing of components and a merger of dealer networks in Sweden, is helping the company claw its way out of trouble.

However Mr Herman remains cautious: "I am not a saviour. It is the Swedes, not me, who have been making the changes."

HK stock clearing system closer

By Simon Holberton in Hong Kong

A CENTRAL stock clearing system for the Hong Kong stock market could be operational before the summer following agreement between the regulator and representatives of the market.

Mr Paul Chow, the exchange's chief executive, said agreement on all outstanding issues had been reached between the exchange, the Securities and Futures Commission – the colony's financial watchdog – and the Hongkong Securities Clearing Company, the entity which will operate the system.

This agreement has paved the way for the SFC to recognise the clearing company formally. It is hoped the new system will be operational on a trade-for-trade basis within eight to 12 weeks.

After the colonial government has enacted its Securities (Clearing Houses) Bill, market risk will be centralised within the company. However, brokers will be required to take out professional indemnity insurance and make monthly transaction reports.

Governance of the clearing house has been one of the main stumbling blocks to agreement, with the SFC and government wanting to see sufficient outside representation on its board.

The board will consist of 22 members: 11 from the exchange; five appointed by the financial secretary; five from the banks; and the chief executive of the clearing company.

Takeover code revision gains approval

THE SECURITIES and Futures Commission, Hong Kong's financial regulator, has approved a revised version of the colony's takeovers code. It will come into effect on April 1, writes Simon Holberton.

Mr Ermanno Pascutto, executive director of the SFC and chairman of the takeovers committee, said the final draft was close to the document the SFC released in November.

The most important of the revisions, however, is a tightening of the definition of acting in concert.

Persons will be deemed to be acting in concert if they co-operate to obtain or consolidate control of voting rights in a company, whether by purchasing securities or by coming together for such purpose. Previously, the code referred only to the acquisition of securities.

ASE extends foreign currency warrants range

THE AMERICAN Stock Exchange (ASE) has begun trading a currency warrant based on the performance of the US dollar against the British pound. It already trades foreign currency warrants based on the Japanese yen and German Mark, writes Patrick Harverson in New York.

Currency warrants are derivative financial instruments which allow investors to buy a specified amount of currency at a predetermined time and exchange rate, although warrants traded on the ASE can be settled in cash at any time before the contract expires.

The pound warrants are aimed at institutional investors who participate in long-term investment or hedging strategies linked to the pound. They act much like call options in the dollar, and their value fluctuates as the value of the US dollar rises or falls against a specific currency.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Prices up slightly despite weak data

THE PUBLIC sector borrowing *requirement figures released* last week confirmed what the gilt market already suspected: the government's deficit for the full financial year is likely to top £12bn. January's figures may have shown a net repayment of £3.7bn, but they came against a background of steadily deteriorating government finances.

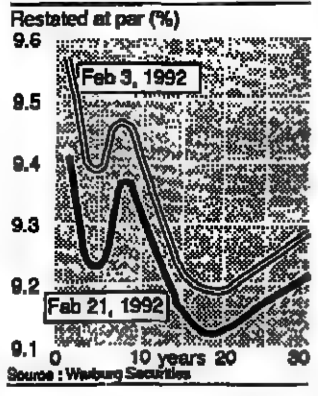
So far, however, the market has remained relatively sanguine at the prospect of burgeoning government borrowing, and has already discounted an "electoral" budget in which the government gives away some £3bn to 4bn in tax cuts. Because of this, the likelihood is that the PSBR will rise to at least £24bn in fiscal 1992-1993.

Last week the market failed to react adversely to the steady stream of bad economic news delivering blows to the government.

Prices over the week crept slightly upwards, with a consequent small decline in yields. The 10 per cent Treasury bond maturing in 2001 rose nearly ¼ point on the week, closing on Friday night at 103[illegible], yielding 9.37 per cent. The longer-dated 9 per cent, conversion stock

UK gilts yields

Restated at par (%)



Source : Warburg Securities

(type-B) due in 2011 rose [illegible] to 98[illegible] to yield 9.14 per cent.

The tolerance of the market to the weak economic data – which may reduce the Conservatives' chances for re-election – stems from long-term optimism over inflation. As Mr Nigel Richardson of SG Warburg Securities says: "The inflation background is winning out at the long end. The PSBR is an onerous level of funding but it is offset by the background of extremely good inflation."

Headline inflation, as measured by the retail prices index, is 4.1 per cent, while core inflation, as measured by the price of manufactured goods at the factory gate, is 4.5 per cent – its lowest level for 3½ years. As lower wage settlements feed through into the inflation rate, many economists believe that headline inflation will fall below 3 per cent by the end of the year. All this is encouraging for gilts at the long end.

However long-term optimism is being clouded by short-term uncertainty, and there are several reasons why there is a need for caution in the market.

First, there is the question mark over the election, which looks increasingly likely to take place on April 9. An opinion poll on Friday put Labour four points ahead of the Conservatives, a lead which, given the recent run of poor economic news, could become a trend. The market feels concerned about the prospects of a Labour government, arguing that it could lead to higher inflation in the long term.

Secondly, overseas investors avoided the UK gilts market last week, fearful perhaps of the government's more open endorsement of fiscal reflation and the political uncertainty.

Meanwhile, the question on *everyone's mind during the* week concerned the £1.25bn tranche of 9 per cent Treasury tap stock due in 2012, which the Bank of England issued on February 10. So far only about half of the stock has been sold.

The remainder continues to cause mild indigestion, failing to attract buyers. On Friday the market was almost one point off the tap level after a second week of failing to break through.

Mr Simon Briscoe, senior UK economist at Greenwell Montagu, says the haste with which the Bank issued the tap helps explain why the market is finding it difficult to make short term progress.

"One feels that the recent healthy appetite for all sterling bonds from the overseas sector could have caused the Bank to misjudge the current buying interest of the domestic institutions," he says.

If it is still there in another two weeks, the Bank will have to withdraw the stock or cut its price. After all, it has to get on with its funding requirements and cannot afford to wait around for ever.

Emma Tucker

GERMAN BUNDS

Investors ponder indicators amid uneasy calm

THE GERMAN Bund market has now entered a reflective phase. The surge in prices which followed the Bundesbank's interest rate move just before Christmas has given way to an uneasy calm as investors ponder the implications of this month's settlement in the steel sector and the outlook for money supply and inflation.

On all these counts, there has been a worsening of sentiment since the end of last year. Investors – largely international investors – then bought heavily because they assumed the Bundesbank's shock tactics would drum moderation into the unions and deal a fast blow to headline inflation, thus creating the conditions whereby interest rates could be brought down again sharply.

In fact, there was a consensus earlier in the year that rates would be cut as early as April, assuming that shortly before then there would emerge conclusive evidence that inflation in the western part of Germany was not going to reach the feared annualised rate of 5 per cent at all. Thus there were fairly general predictions that the yield on the 10-year long Bund would tumble to 7.5 per cent by the middle of the year, down from 8.25 per cent before December's rate cut.

The outlook for inflation has not worsened in the intervening weeks, but perceptions about the Bundesbank's interest rate stance have. The market senses a growing likelihood that the hoped-for rate cut will not come until the third quarter of the year at the earliest. Hence the Bund yield is currently lodged at 7.94 per cent – fractionally down on its best for the current year – and pundits are more reluctant to predict further imminent price gains.

It is too strong to say the market has been infected by outright pessimism. However, the strike settlement, with a pay increase of an effective 6.35 per cent, was undoubtedly higher than the central bank would have liked and is bound to have an impact on the forthcoming wage negotiations in the public and engineering sectors. The steelworkers' settlement is therefore deemed likely to act as a spur to prolonged vigilance in monetary policy.

The news on inflation is more positive: Dieter Wermuth at the Caisse des Dépots et Consignations in Frankfurt points out that import prices have been falling at an annualised rate of 5 per cent since June last year, and that export prices for January are likely to have risen by only 1.2 per cent year on year. The year-on-year rate for consumer prices is likely to be 4.1 per cent for February. "An excellent result," says Mr Wermuth, and one which makes 5 per cent look less probable later in the year.

On the other hand, figures out on Friday showed that money supply grew at an annualised rate of 9 per cent in January – well outside the 3.5 to 5.5 per cent range set for the whole of 1992. The Bundesbank is determined to choke off this growth – another reason why rates are unlikely to be brought down in the short term.

On balance, commentators believe the medium-term prognosis is favourable, that interest rates will be on their way down again within six months or so. But that is not what international investors were hoping for when they bought so vigorously earlier in the year and, in the short term, the market seems likely to stagnate at current levels.

David Waller

US MONEY AND CREDIT

Fed adds to confusion and gloom

THE US fixed-income market *starts this week disheartened* and distinctly confused by the latest thoughts and actions of the Federal Reserve and their implications for interest rates.

Last week's market activity was dominated by two Fed developments. On Tuesday, it announced it was cutting the proportion of checking account deposits that banks have to hold as reserves, which do not accumulate interest, from 12 per cent to 10 per cent.

The move, which does not come into effect until April, will lower banks' cost of funds, improve their balance sheets, and – hopes the Fed – encourage them to lend more to US business and help the nascent economic expansion.

The following day, Mr Alan Greenspan, the Fed chairman, went before Congress and gave his semi-annual report on the economy and monetary policy. His tone was distinctly upbeat, albeit hedged around with caveats.

The economy, he said, was poised for recovery. He estimated it would grow this year at an inflation-adjusted 1.75 to 2.5 per cent, while inflation would drop to the lowest rate in a generation.

All this thoroughly depressed the bond market. The reduction in reserve requirements was seen as monetary easing in another form, and thus a move which reduced the likelihood of a further cut in interest rates. And gloom was increased by the thought that Mr Greenspan's optimism might actually be right, for the fixed-income market dislikes economic growth, with attendant inflation, which undermines the value of its securities.

However the gloom could be a little overdone. First, the market may have read too much into the change in reserve requirements. For as the bond analysts at Donaldson, Lufkin & Jenrette point out, when the Fed undertakes reductions in reserve requirements it usually sterilised the effect of the move by draining excess reserves from the banking system.

Mr Geoffrey Dennis, of brokers James Capel, says the move is "yet another effort by the Fed to kick-start bank lending, which has continued to be held back in recent months both by supply constraints imposed by the banks and a lack of demand from customers". Second, if the Fed really believes the economy is poised for recovery, why does it need to add a further stimulus to the banking system now?

A logical explanation is that it is not yet fully convinced that recovery is sustainable, and the banking move is a relatively low-cost, non-inflationary means of bolstering the financial system. Certainly, the past week has produced a rash of statistics which, at first sight, support some economic optimism.

Car sales jumped in early February; January retail sales were strong; and the housing market has shown further signs of a pick-up, albeit from a very low base and in limited regions of the country.

Money supply has also started expanding strongly: M2, the broad money measure closely followed by the Fed, rose $9.5bn in the latest reporting week, putting it comfortably within the bank's 2.5 to 6.5 per cent target rate for 1992 growth.

None of all this provides conclusive evidence of sustained growth. Cynical analysts point out that many of these same factors also occured last year, offering a false dawn of economic recovery.

Yet there are huge differences this time around: interest rates are much lower; the banking system has gone a long way to repairing its balance sheet; and corporate America has also been through a wholesale restructuring. The Fed's hopes for a gradual recovery seem to leave its monetary policy on hold for now. If fresh signs of weakness emerge, such as a disappointing February employment report, due early in March, it could yet cut the Fed funds rate from 4 per cent to 3.75 or 3.5 per cent.

But if it thinks the recovery is sustainable, the US may already be at the bottom of the interest rate cycle – and that thought produced substantial falls in bond prices last week. At one point, the benchmark Treasury 30-year bond rose almost to the psychological barrier of an 8 per cent yield.

The market is focusing far more on Mr Greenspan's growth forecasts than his more encouraging inflationary expectations, which he predicated upon "appropriate economic policies". For in an election year, with President Bush suffering a severe setback in New Hampshire last week, it would be unwise to bank on *either Congress or the White House* acting appropriately.

Martin Dickson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	3.75	3.88	3.87	11.00	2.00
Three-month Treasury bills	4.02	3.89	3.90	8.29	3.76
Six-month Treasury bills	4.18	4.03	4.06	7.70	3.89
Three-month prime CDs	4.25	4.15	4.15	7.17	4.01
30-day Commercial Paper	4.20	4.03	4.00	7.12	3.90
90-day Commercial Paper	4.20	4.05	4.00	7.02	3.92

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	[illegible]	[illegible]	7.07	6.99	6.89
10-year Treasury	[illegible]	[illegible]	7.44	7.38	n/a
30-year Treasury	[illegible]	[illegible]	7.94	7.91	7.51

Source: Salomon Bros (estimates).

Money supply: In the week ended 10/2/92, M1 rose $5.4bn to $926.6bn. M2 rose $9.5bn to $3,476.2bn.

FT/ISMA INTERNATIONAL BOND SERVICE

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on February 21

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Turkish borrower to launch $100m deal

KOC, one of Turkey's two largest industrial conglomerates, is launching its first substantial international financing, consisting of a $70m club loan and a DM50m private placement of bonds.

The $100m medium-term financing is interesting for two reasons: first, because Koç hopes to raise its profile in the international capital markets and, secondly, because Turkish names have tended to borrow short-term in the loans market recently, but are keen to extend their debt maturity profile.

Koç, a family-controlled group, is listed on the Istanbul Stock Exchange and has subsidiaries in the banking, tourism, textiles, consumer durables and auto sectors. It is not well-known in the international capital markets. In the past, the group has met its financing requirements from its cash flow or with the help of domestic banks. Although it issued DM30m in Eurobonds in 1989, using a private placement, Koç has not made any other significant borrowings in the international markets.

The $100m financing is seen as a means of establishing relations with a small group of banks in preparation for further international borrowings – possibly to help finance acquisitions in Europe. So far Koç has not made such acquisitions to expand outside its home base.

"The advantage of doing this [$100m] financing now is that if Koç decides to do an acquisition later on, it would be better-known in the capital markets, and could raise the necessary financing more easily and more quickly than if it had not borrowed in the capital markets before," says one banker associated with the deal.

The five-year club deal has three arrangers: International Finance Corporation (IFC, the World Bank affiliate devoted to private sector investment); Commerzbank (which is leading the D-Mark bond placement); and J.P. Morgan. Deutsche Bank, Union Bank of Switzerland, and Bank of Tokyo are lead managers and underwriters. Three of the lenders – IFC, J.P. Morgan and UBS – have triple A ratings.

The margin is around 100 basis points over the London interbank offered rate (Libor). Clearly, Turkish borrowers have had to agree to more generous pricings since the last medium-term loan – the Republic of Turkey's three-year $200m syndicated credit launched last summer with a margin of 90 basis points over Libor. At the time, the deal was described as aggressively priced and met with a poor reception.

Several Turkish borrowers tapped the syndicated loans market after the the Gulf war, although many of them have used one-year deals. While Turkish borrowers are keen to extend their debt maturity profile, bankers point out that it is difficult to attract lenders for longer-term loans.

● British Bank of the Middle East has agreed a 10-year $56.6m financing for the United Arab Emirates' latest Airbus A310-300. The airline is expanding its fleet, and three A310s are to be delivered this year.

Sara Webb

EUROMARKET TURNOVER ($m)

	Primary Market US $	Primary Market Non-$	Secondary Market US $	Secondary Market Non-$
Fixed income bonds				
Euros straight	2,800.5	6,772.2	39,019.3	66,844.5
Other straight	0.0	11,394.4	551.2	121,968.3
Convertible	0.0	0.0	800.5	1,299.5
Money market instr				
FRN	717.2	937.8	8,097.1	4,207.2
CD's	513.3	94.3	925.7	274.7
Short $ MT Notes	12,318.4	[illegible]	6,729.6	10,593.8
Warrants	0.0	0.0	952.4	290.6
Equities	61.4	0.0	454.0	952.5
Total	16,208.8	22,487.4	51,660.1	196,331.5

	Cedel	Euroclear	Total
US$	22,936.4	44,930.5	67,866.9
Other	76,027.7	142,791.2	218,818.9

Week to February 20, 1992

The Warrants and Equities figures are from Euroclear only

Source ISMA

INTERNATIONAL BONDS

Attention switches to World Bank's global yen plan

INTERNATIONAL investors gave a warm welcome to Spain's giant Y125bn bond issue last week, underlining the appetite of investment managers for Euroyen assets – if they are sensibly priced.

The caveat could be important as the market braces itself for another huge issue of yen bonds, against a background of uncertain market conditions.

Attention has now switched to the World Bank's planned 10-year global yen bond issue, expected early next month. The deal will be of at least Y150bn, and possibly as large as Y250bn, dwarfing even last week's deal.

Nomura International, IBJ International and J.P. Morgan have been awarded a joint mandate to lead-manage the transaction, the first global offering in yen.

The strong underlying demand for yen bonds is based on the outlook for Japanese interest rates, which are likely to fall as the economy slows. The overnight discount rate was last cut by ½ a point to 4.5 per cent on December 30.

However, it remains uncertain just when the Bank of Japan will cut rates again, and the bond market has been engaged in a game of cat-and-mouse with the authorities this year.

Japanese government bond prices peaked in mid-January as the market began to discount another monetary easing. But the central bank deliberately squashed expectations of another early cut in interest rates, squeezing money-market rates higher and causing the bond market to retreat.

Government bond yields touched 5.185 per cent on January 22 at the peak of the market, but bounced back to 5.475 per cent on February 2. They have since been caught in volatile trading range.

There is also uncertainty over the direction of the Japanese currency. In the run-up to last month's meeting of finance ministers and central bankers from the Group of Seven industrial countries, there were expectations of co-ordinated action to strengthen the yen. The argument ran that policymakers would use a stronger yen to cap Japan's huge trade surplus – which rose 50 per cent to $78.2bn last year.

However, the G7 meeting did not result in any firm commitment on exchange rates. Although the US Federal Reserve and Bank of Japan have since intervened in the foreign exchange markets to prop up the yen, many investors still see the chance of gradual depreciation of the Japanese currency against the dollar.

Hence, while there is strong underlying interest in Euroyen bonds, the immediate market conditions for "jumbo" issues are not altogether auspicious. Spain recognised this by pricing its bonds at a sensible level.

The deal was seen among syndicate officials as a triumph for consensus pricing. Nomura, which won the mandate to lead-manage the deal following a competitive bidding process among top underwriting firms, eventually priced the bonds in consultation with its competitors.

It remains to be seen whether the World Bank will be as accommodating. Outstanding World Bank bonds trade at a yield lower than Japanese government bonds, a record which the borrower will be hoping to extend.

Against this, the Euro-yen market has seen a move in favour of larger, more liquid issues in recent years as institutional investors have demanded greater liquidity. Last year saw only fractionally more new issues than in 1988, yet average size of the deals more than doubled over the same period.

The World Bank global issue will be the most liquid of all yen instruments available internationally. It will be traded in all time zones and will be of a credit quality to attract all types of investors, including central banks. Even so, investors are waiting to see whether the World Bank will trim its ambitions to fit market conditions.

● Gefco, the UK government-backed export finance agency, launched a rare £350m three-year floating-rate note issue on Friday.

The only outstanding sovereign-backed issue in the sterling FRN sector is New Zealand's £200m deal, which was launched in June 1986 and is no longer traded actively.

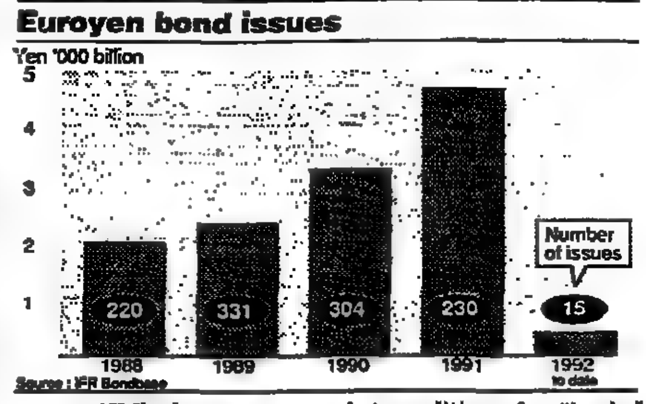
Floating-rate notes of sovereign credit quality are used by central banks to manage short-term liquidity. UBS Phillips & Drew, the lead manager, estimated that around 75 per cent of the deal was placed with central banks and supranational agencies overseas.

The bonds pay a margin of 25 basis points less than the six-month London interbank offered rate. The paper was re-offered to investors at a fixed price of 99.875, where the discounted margin is 20 basis points under Libor.

In the past, Gefco has met most of its funding requirements, used to refinance loans made by commercial banks to overseas borrowers, in the fixed-rate bond market. However, the proceeds of Friday's issue were swapped to give Gefco fixed-rate funding at an interest rate comparable to that achieved by the government in the gilts market.

Simon London

Euroyen bond issues

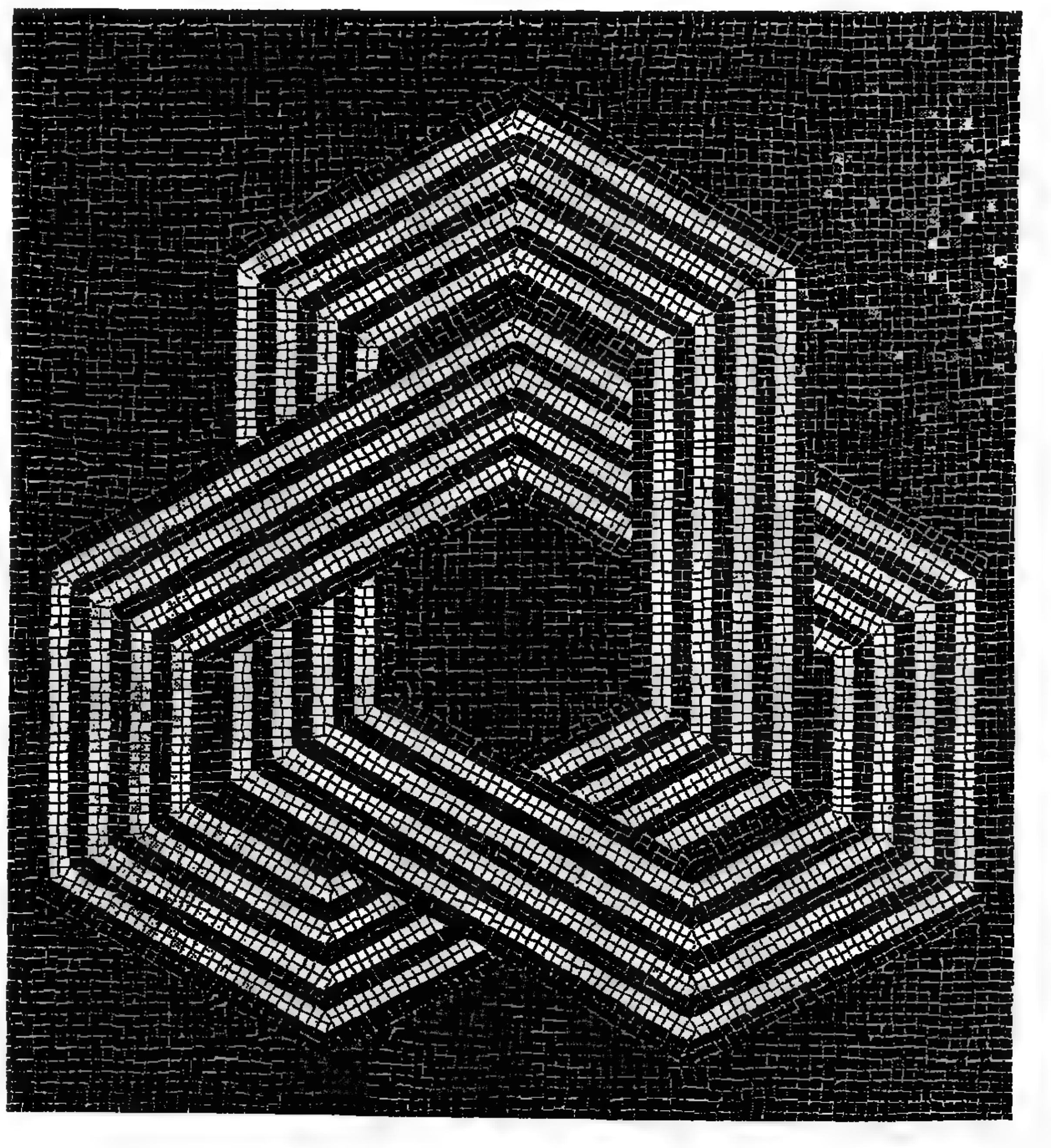


Source: IFR Bondbase

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sumitomo Heavy Ind.(a)♦†	170	1996	4	3	100	Daiwa Europe	3.000
Alias No. 1(b)‡†	340	1997	5	(b)	100	Nomura Int.	-
EIB†	500	1999	7	7⅛	99.786	CSFB	7.165
Sumitomo Cement§	150	1996	4	3	100	Nomura Int.	3.000
Argentina Bonex 89 Tst.(e)†	75	1999	7.033	8½	91.45	Merrill Lynch	10.337
Creditanstalt Bkverein.(f)†	50	1996	4	6¾	101	Creditanstalt Bkverein.	5.458
MBL Finance (Curacao)(g)†	40	2002	10	7⅜	100	Mitsubishi Fin.Int.	7.375
MBL Finance (Curacao)(h)†	40	2007	15	8¼	100	Mitsubishi Fin.Int.	8.250
Victorian Public Fin.†	300	2002	10	8¼	99¼	Morgan Stanley Int.	8.358
Mitsui Taiyo Kobe Bk(n)‡†	50	2002	10	(n)	102	Mitsui Taiyo Kobe Int.	-
Bariven(r)†	200	1995	3	8¼	99.804	Chase Investment Bk	8.327
Bariven(r)†	200	2002	10	10⅛	99.917	Chase Investment Bk	10.639
STERLING							
Sun Alliance†	150	1997	5	10⅝	99.70	Warburg Secs.	10.706
Guaranteed Exp.Fin.Corp(s)‡†	350	1995	2.833	(s)	100	UBS Phillips & Drew	-
ECUs							
Nacional Financiera†	100	1997	5	10¼	100¾	SBC	10.052
EIB★★†	100	1994	2	8.8	100	Banco di Roma	8.800
European Community(o)†	400	1997	5¾	8⅝	100.65	Morgan Stanley	8.463
General Elec.Cap.Corp(p)†	75	1994	2	9¼	101.075	UBS Phillips & Drew	8.642
CANADIAN DOLLARS							
Prudential Fdlng.Corp(c)†	100	1996	3¾	8¼	100.55	UBS Phillips & Drew	8.055
AUSTRALIAN DOLLARS							
Shell Australia†	100	1997	5	10⅛	101¾	Deutsche Bk Cap.Mkts.	9.667
Western Australia Tresury†	100	1999	7	10½	101.95	Hambros Bank	10.098
Nationale-Nederlanden†	65	1997	5	10	101.30	Deutsche Bk Cap.Mkts.	9.660
State Bk of Sth.Aust.(l)†	100	2002	10	11	101.85	Hambros Bank	10.690
FRENCH FRANCS							
Aerospatiale†	1bn	1994	2	9¾	100⅞	Credit Lyonnais	8.878
Credit National(k)†	600	2003	11	8.4	98.70	Societe Generale	8.443
SWISS FRANCS							
EIB(d)†	200	1998	-	6½	102½	UBS	6.006
Kanematsu Corp(i)★★§†	220	1996	-	6½	100	Yamaichi Bk (Switz)	6.508
Osaka Bearing(j)★★♦	20	1996	-	3⅞	100	Nikko (Switz) Fin	3.875
Asia Motors(m)★★§	70	1996	-	4	100	SBC	3.997
LIRE							
Compagnie Bancaire†	150bn	1997	5	11.80	101.70	Banco di Roma	11.336
Crediop†	500bn	2002	10	10.65	101.60	S.Paolo di Torino	10.385
Osterreichische K'bank†	500bn	2002	10	zero	35.95	Paribas Capital Mkts	10.772
ABB Int.Finance†	150bn	1999	7	11.65	101.70	S.Paolo di Torino	11.288
PESETAS							
Nordic Investment Bk(q)†	7.5bn	1997	5	10½	101.55	Bco Bilbao Vizcaya	10.090
YEN							
Okamura Int.Finance†	10bn	1997	5	6	101.325	Nomura Int.	5.688
Kingdom of Spain†	125bn	2002	10	5¾	99.20	Nomura Int.	5.856
LUXEMBOURG FRANCS							
Pacific Dunlop†	750	1995	3	9¼	102.10	Credit Europeen	8.429
Montreal Trustco†	750	1997	5.167	9	102¼	BIL	8.432
Cregem Int.★★†	500	1996	4	9	102.30	Cregem Int.	8.280
Banco di Roma★★†	1bn	1995	3	9⅛	102⅛	Cregem Int.	8.298
Commerzbank Int.†	2bn	2000	8	9	102¼	Credit Europeen	8.600
Ford Motor Credit Co.†	2bn	1995	3	9¼	102.15	KBL	8.410
Bque.Bruxelles Lambert†	2bn	2004	12	zero	37¼	Credit Europeen	8.577

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate notes. ♦Variable rate note. †Final terms. a) Exercise premium fixed at 2.5%. Non-callable. b) Coupon pays 1.1% over 6-month Libor. Non-callable. c) Fungible with existing C$150m deal launched November 1991. Non-callable. d) Fungible with existing SFr600m deal. Non-callable. e) Principal repaid in 8 equal instalments. Coupon payable semi-annually. Non-callable. f) Issuer has option to increase amount by $50m in 3-month period after 26/5/92. g) Callable from 27/2/97 at 100%. h) Callable on 27/2/97 for one day, then any time from 27/2/2002 at 100%. i) Coupon payable semi-annually. Conversion premium fixed at 2.53%. Non-callable. j) Callable 12/3/94 at 101% declining ½% semi-annually. k) Investors have option to reinvest coupon payments in further bonds at 100%, thus potentially increasing issue size each year. Non-callable. l) Fungible with existing A$100m deal. Non-callable. m) Put option 30/8/94 at 111¾% to yield 8.62%. n) Coupon pays 30bp over 6-month Libor. Callable, once, only, 23/3/95 at 100%. If call not exercised will pay coupon of 9¼% thereafter. o) Fungible with existing Ecu350m deal launched November 1991. Non-callable. p) Issue part of an existing Medium Term Note Programme. Non-callable. q) Matador issue. Non-callable. r) Issued as part of a Medium Term Note Programme set by Petroleos de Venezuela. Non-callable. s) Coupon pays 6-month Libor minus 25bp. Non-callable. Note: Yields are calculated on ISMA basis.



WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Feb 21	Feb 20	Feb 19	Feb 18	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	3280.19	[illegible]	3230.32	3224.73	3280.64 (20/2)	3172.41 (2/1)	[illegible] (20/2/92)	41.22 (2/7/32)
Home Bonds	98.92	98.92	[illegible]	98.84	99.81 (6/2)	98.77 (3/2)	99.81 (6/2/92)	54.99 (1/10/81)
Transport	1466.93	1467.68	1426.89	1420.05	1467.68 (20/2)	1342.12 (2/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	204.24	206.94	205.50	206.00	225.59 (3/1)	204.24 (21/2)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 3307.47 (3304.34) Low 3242.17 (3224.28)

STANDARD AND POOR'S

	Feb 21	Feb 20	Feb 19	Feb 18	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	411.43	413.90	408.26	407.38	420.77 (15/1)	407.38 (18/2)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	489.86	492.45	485.15	483.91	499.27 (15/1)	483.91 (18/2)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	34.44	34.50	34.06	33.93	35.14 (15/1)	[illegible] (31/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	227.46	228.60	225.85	225.65	231.85 (15/1)	225.65 (18/2)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	412.85	412.86	407.46	409.20	418.99 (12/2)	395.51 (2/1)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	629.75	632.23	622.41	626.41	644.92 (12/2)	[illegible] (2/1)	644.92 (12/2/92)	54.87 (31/10/72)

	Feb 14	Feb 7	Jan 31	year ago (approx.)
Dow Industrial Div. Yield	2.82	2.85	2.87	[illegible]

	Feb 19	Feb 12	Feb 5	year ago (approx.)
S & P Industrial div. yield	2.60	2.54	2.56	2.91
S & P Indl. P/E ratio	25.03	25.61	25.43	17.89

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

TOKYO - Most Active Stocks

Friday 21 February 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	4.6m	352	+5	Sagami Rail	3.0m	629	0
[illegible]	4.4m	1,190	+90	NKK	2.5m	329	+7
Nippon Zeon	3.7m	609	+39	Mitsubishi Heavy	2.2m	634	+8
Nippon Storage	3.2m	1,080	+30	M'bishi Material	2.1m	508	[illegible]
Nippon Carbon	3.2m	1,840	+140	Showa Highpoly	2.1m	1,300	+60

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

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Standard Life Tst Mgmt Ltd (0629)H
3 George St, Edinburgh EH2 2XZ 0800 393777

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Managed Acc	5¼	36.46	36.46	38.74	2.43	41398
UK Equity Gth Acc	5¼	49.91	50.81	53.99	1.92	41399
UK Eq High Inc Inc	5¼	28.84	29.54	31.39	6.31	41400
UK Eq High Inc Acc	5¼	32.43	33.21	35.29	6.31	46982
UK Equity Gen Acc	5¼	46.07	46.81	49.74	3.45	41401
UK Equity Gen Inc	5¼	36.85	36.63	38.92	3.45	41402
UK Larger Cos Acc F	7¼	306.6	310.5	337.0	4.75	41403
UK Larger Cos Inc F	7¼	246.9	250.0	271.3	4.75	41404
Gilt & Fxd Int Inc	5¼	28.38	28.46	30.10	7.20	41405
O'seas Larg Cos Acc F	7¼	211.7	215.3	233.7	2.08	41406
Nth American Acc	5¼	36.85	37.03	39.35	0.85	41407
Far East Acc	5¼	39.28	40.31	42.83	0.13	41408
European Acc	5¼	35.21	36.57	38.86	1.63	41409

Stewart Ivory Unit Tst Mgrs Ltd (1200)H
45 Charlotte Sq, Edinburgh 031-226 3271

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American ♥	5	299.3	299.3	319.4	0.71	41410
(Accum Units) ♥	5	352.3	352.3	375.9	0.71	41411
British	5	796.1	809.1	856.0	4.06	41416
(Accum Units)	5	1308.8	1329.4	1406.4	4.06	41417
European	5	331.8	331.8	352.5	1.42	41418
(Accum Units)	5	359.7	359.7	382.1	1.42	41419
Japan	5	107.6	107.6	114.5	–	41420
(Accum Units)	5	108.5	108.5	115.4	–	41421
New Pacific	5	193.8	193.8	206.4	1.67	46365
(Accum Units)	5	199.0	199.0	212.0	1.67	47484
PEP Feb 20	5	149.1	150.5	159.2	3.53	47588
Mngd Equity	5	126.3	127.7	135.1	2.79	47586
Mngd Equity Acc	5	134.0	135.5	143.3	2.79	47586
Mngd Cash	0	96.41	96.41	96.41	10.13	47587
(Accum Units)	0	118.9	118.9	118.9	10.13	40267
Majority Stlg	1	100.42	100.42	101.43	9.96	42703
Majority Stlg Acc	1	109.36	109.36	110.46	9.96	44489

Storebrand Intl Inv Mngrs Ltd (1200)F
Admin. 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries: 0277 227300 Dealing: 0277 261010
International Jan 31 | 0 | 50.77 | 50.77 | 51.24 | 3.20 | 46906

Sun Alliance Unit Tst Mngmt Ltd (1200)F
St Mark's Court, Horsham 0403 232323

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 071-588 1815

	Bid Price	Offer Price	Yield Gross	City-line
Property Jan 31	196.75	208.75	7.93	40829
Equity Jan 31	888.05	895.20	3.77	40830

* Available only to Local Authorities

M & G Securities Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Charifund Feb 20	104.19xd		10.35	40883
(Accum Units)	630.99		10.35	40884
MAGCIF Feb 18	40.00xd		9.63	46917

Morgan Grenfell Investment Funds Ltd

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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Norwich Union Life Insurance Soc.—Contd.

Pensionmaster* & Unit-Linked Plan*

	Bid Price	Offer Price	Yield Gross	City-line
Mixed Fund	461.2	[illegible]	–	43233
Ordinary Share Fund	660.0	694.7	–	43229
International Fund	173.3	182.4	–	43230
Property Fund	261.1	274.8	–	43231
Fixed Interest Fund	396.5	417.4	–	43227
Index Linked Sec Fund	192.9	203.1	–	43228
Deposit Fund	276.0	290.5	–	43232
Norwich Units Nov 15	1053.70		–	43234

*Prices as at February 18

Jersey Investment Plan

	Bid Price	Offer Price	Yield Gross	City-line
With Profits Fund	121.84	128.25	–	[illegible]
Intl Equity Fund	95.36	100.38	–	40438
Intl Bond Fund	120.89	127.25	–	[illegible]

Norwich Union Pensions Management Ltd

Surrey Street, Norwich, NR1 3NG 0603 683335

Group Pension Portfolios

	Bid Price	Offer Price	Yield Gross	City-line
Balanced Managed Fd	316.87	322.17	–	44391
Growth Managed Fd	105.19	107.05	–	44395
Sentinel Managed Fd	104.35	105.78	–	44399

Prices as at February 20

Pearl Assurance (Unit Funds) Ltd

The Wood, Peterborough PE2 6FY 0733 63212

	Bid Price	Offer Price	Yield Gross	City-line
Prop Dist (Gross)	133.8	140.4	–	43235
Prop Acc (Gross)	254.3	[illegible]	–	43236
Equity (Gross)	[illegible]	[illegible]	–	43237
Managed (Gross)	[illegible]	[illegible]	–	43238
Prop Acc (Net)	121.3	127.7	–	43239
Equity (Net)	199.6	[illegible]	–	43240
Managed (Net)	185.9	195.7	–	43241
International (Net)	170.7	179.6	–	43242
Gilt & Fxd Interest	133.8	[illegible]	–	43243
Money Fund	136.5	143.7	–	43244
Mixed Fund (Cap)	115.9	122.0	–	46550
Mixed Fund (Acc)	119.1	125.4	–	46548

Provident Mutual Life Assc. Assn.—Contd.

Pension Funds

	Bid Price	Offer Price	Yield Gross	City-line
Managed Ord	460.8	[illegible]	–	43498
Managed Init	340.1	358.0	–	43499
Equity Ord	695.6	732.2	–	43500
Equity Init	515.4	540.4	–	43501
Pen Ind Lkd Gilt Ord	181.3	190.8	–	43502
Pen Ind Lkd Gilt Init	139.7	147.1	–	43503
Overseas Equity Ord	327.3	[illegible]	–	43504
Overseas Equity Init	241.6	[illegible]	–	43505
Property Ord	272.6	[illegible]	–	43506
Property Init	201.2	[illegible]	–	43507
Fixed Interest Ord	278.5	293.2	–	43508
Fixed Interest Init	205.6	[illegible]	–	[illegible]
Deposit Ord	259.6	273.3	–	43510
Deposit Init	191.6	201.7	–	43511

Prudential Assurance Co

Holborn Bars, London EC1N 2NH 071-405 9222

Pensions

	Bid Price	Offer Price	Yield Gross	City-line
Managed Feb 19	258.2	269.81	–	43612

Prudential Corporate Pension Funds

1 Stephen St, London W1P 2AP 071-548 3281

Prudential Managed Funds

	Bid Price	Offer Price	Yield Gross	City-line
Discretionary Feb 19	£103.66	109.34	–	43539
Equity Feb 19	£207.59	[illegible]	–	43540
International Feb 19	£28.33	28.96	–	43541
Intl Bond Feb 19	£14.60	14.78	–	43542
Fixed Int Feb 19	£100.89	102.03	–	43543
Index Linked Feb 19	£73.75	74.68	–	43544
Property Feb 19	[illegible]	[illegible]	–	43545
Cash Feb 19	£29.7368	29.7368	–	43546

Pre-Linked Retirement Plan

	Bid Price	Offer Price	Yield Gross	City-line
Managed Feb 20	445.4	464.8	–	43547
Cash Feb 20	273.6	285.6	–	43548

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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	Bid Price	Offer Price	Yield Gross	City-line
CMI Fund Managers (IoM)				
Clerical Medical Hse, Douglas, IoM 0624 [illegible]				
High Income	[illegible]	[illegible]	[illegible]	[illegible]
CMI Core Portfolio Fund				
UK	1.0130	1.0839	–	[illegible]
USA	1.0802	1.1480	–	[illegible]
Japan	0.5809	0.6175	–	[illegible]
Equity & Law Intl Fund Mngrs Ltd				
Victory Hse, Prospect Hill, Douglas IoM 0624 677877				
Total Income Fd	96.80	96.80	101.88	[illegible]
Gartmore Fund Managers (IoM)				
PO Box 32, Douglas, IoM 0624 627610				
Intl Grth	498.0	498.0	533.0	0.9
Leopold Joseph Fund Mngrs (IoM) Ltd				
LJ International	95.63	95.63	102.96	–
Mercury Fund Managers IoM Ltd				
11 Hill Street, Douglas IoM 0624 662256				
Merc IoM Fund	104.5	104.5	111.5	7.4
Merc Intl Bond	53.98	53.98	56.72	8.7
Sun Life Management (IoM) Ltd				
PO Box 178, Douglas, IoM 0624 622444				
Secure High Income	[illegible]	1.0347	1.1139	[illegible]
Unibank Scandinavian Fund Ltd				
23 Bucks Road, Douglas, IoM 06246 26484				
Scandinavia Fd	[illegible]	[illegible]	[illegible]	[illegible]

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-line
EBC Trust Company (Jersey) Ltd						
Income			$15.41	15.882		
Capital			$23.67	24.390		
Equitilink International Mngt Ltd						
NAV Diluted to reflect exercise of all Wrts US$10.41						
Fidelity Investment (CI) Ltd						
Sterling American			£2.535	2.650		
Fleming Group						
European			£6.47	6.90		
Far Eastern			£4.70	5.02		
North American			£9.12	9.70		
Sterling Bond			102.54	107.94		
UK Growth			288.33	306.45		
Sterling Deposit			386.5	386.9		
Global Portfolio Fd £			£6.27	6.78		
Global Portfolio Fd $			$10.93	11.82		

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

	Bid Price	Offer Price	Yield Gross	City-line
Wellington Fd Mngrs (Bermuda) Ltd				
Bond Growth Fd	$13.03	14.34	–	45995
Wells Fargo U.S. IT Fund				
Wells Fargo A Shs (z)	$10.76		–	47859
Wells Fargo B Shs (z)	$10.29		–	47194
Xiphias International Investment Fd Ltd				
Xiphias Inc USD	$1.1005		–	46024
Xiphias Inc ECU	Ecu1.0660		–	46023

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yield % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. b Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Designated in Luxembourg as a UCITS (Undertakings for Collective Investment in Transferable Securities). z Offered price includes all expenses except agent's commission. ‡ Previous day's price. ¶ Guernsey gross. ‡ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ◊ Only available to charitable bodies. ● Yield column shows annualised rates of NAV increase. xd ex dividend.

(**) Funds not SIB recognised. The regulatory authorities for these funds are: Guernsey Financial Services Commission; Ireland Central Bank of Ireland; Isle of Man Financial Supervision Commission; Jersey Commercial Relations Department; Luxembourg Institut Monetaire Luxembourgeois.

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS AND FOREIGN EXCHANGES

Dollar to lead way

THE dollar is again expected to dominate the foreign exchanges this week, with crucial figures on consumer confidence out on Tuesday.

"Information coming out until now has been perceived to be historic and not of much interest," said Mr David Cocker, treasury adviser of Chemical Bank. The consumer confidence numbers, along with the Chicago Purchasing Managers' Report on Friday, will be the first significant forward looking statistics.

UK clearing bank base lending rate
10.5 per cent
from September 4, 1991

The dollar is expected to test lower levels if the consumer confidence is worse than January's 50.4 per cent. However, any decline is not expected to last long as underlying demand is still strong. Lower levels against the D-Mark would only encourage the bulls.

Economists suggested that dollar/yen could be subject to further intervention this week. The Bank of Japan sold dollars for yen twice last week.

Dr Gerard Lyons, chief economist with DKB International, dismissed rumours that the Bank of Japan might seek to introduce alternatives to intervention – such as a limit on speculative dollar buying. "The Bank of Japan is more likely to focus on its reserves as a primary source of defence," he said.

Sterling is likely to ignore economic data this week, in favour of opinion polls. "The pound will be a political animal from now on," said Mr Cocker.

Speculation over an imminent base rate cut in the UK had virtually been eliminated by the end of the week, with most players counting on a reduction just after the March 10 budget.

The Australian dollar faces some uncertainty as the market awaits a statement on the economy from Prime Minister Paul Keating. "If they signal an easing of policy the dollar could have a perverse reaction," said Mr Peter Luxton of Barclays.

£ IN NEW YORK

Feb.21	Close	Previous Close
£ Spot	1.7420-1.7430	1.7517-1.7524
1 month	0.85-0.84pm	[illegible]
3 months	2.55-2.53pm	4.83-4.78pm
12 months	8.57-8.50pm	8.55-8.45pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Feb.21	Previous
8.30	am	90.5	90.5
9.00	am	90.5	90.5
10.00	am	90.5	90.5
11.00	am	90.5	90.6
Noon		90.5	90.5
1.00	pm	90.5	90.6
2.00	pm	90.5	90.6
3.00	pm	90.5	90.6
4.00	pm	90.5	90.6

CURRENCY MOVEMENTS

Feb 21	Bank of England Index	Morgan Guaranty Changes %
Sterling	90.5	[illegible]
U.S. Dollar	[illegible]	[illegible]
Canadian Dollar	101.3	[illegible]
Austrian Schilling	109.7	+12.1
Belgian Franc	111.2	[illegible]
Danish Krone	108.7	+2.9
D-Mark	[illegible]	[illegible]
Swiss Franc	106.1	+14.4
Dutch Guilder	114.3	+14.2
French Franc	103.0	-13.0
Lira	98.7	-19.7
Yen	143.4	+78.1

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Feb.20

CURRENCY RATES

OTHER CURRENCIES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Feb 21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
Belgium	33.75 - 34.05	33.90 - 34.00	14.00-16.00cdis	[illegible]	44.00-48.00dis	-5.42
Denmark	[illegible] - 6.4180	6.3975 - 6.4025	2.70-3.00oredis	-5.34	8.80-9.40dis	[illegible]
Germany	[illegible] - 1.6565	1.6490 - 1.6500	[illegible]	[illegible]	2.24-2.26dis	[illegible]
Portugal	141.85 - 142.10	141.85 - 141.95	100-110cdis	[illegible]	320-335dis	[illegible]
Spain	102.95 - 103.75	[illegible] - 103.55	[illegible]	-8.17	216-221dis	-8.44
Italy	1231.50 - 1242.00	1237.75 - 1238.25	7.60-8.10liredis	-7.61	20.70-21.70dis	[illegible]
Norway	[illegible] - 6.4845	6.4700 - 6.4750	2.97-3.17oredis	-5.69	9.60-10.20dis	[illegible]
France	[illegible] - 5.6350	[illegible] - 5.6125	2.55-2.60cdis	-5.51	8.15-8.23dis	-5.84
Sweden	[illegible] - [illegible]	5.9750 - 5.9800	[illegible]	-7.74	11.85-12.35dis	[illegible]
Japan	[illegible] - 128.85	128.65 - 128.75	0.12-0.13ydis	-1.17	0.28-0.30dis	-0.90
Austria	[illegible] - [illegible]	[illegible] - [illegible]	[illegible]	-5.21	15.30-16.50dis	[illegible]
Switzerland	1.4815 - 1.4975	1.4925 - 1.4935	0.37-0.40cdis	-3.09	1.21-1.25dis	[illegible]
Ecu	1.2360 - 1.2460	1.2380 - 1.2390	0.59-0.57cpm	[illegible]	1.85-1.79pm	5.88

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Feb.21	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Ecu
£	1	1.747	2.883	224.8	9.800	2.608	3.245	2163	2.067	59.30	1.411
$	0.572	1	1.650	128.7	5.610	1.493	1.857	1238	1.183	33.94	0.808
DM	0.347	0.606	1	77.97	3.399	0.905	1.126	750.3	0.717	20.57	0.489
YEN	4.448	7.771	12.82	1000.	43.59	11.60	14.44	9622	9.195	263.8	6.277
F Fr.	1.020	1.783	2.942	229.4	10.	2.661	3.311	2207	2.109	60.51	1.440
S Fr.	0.383	0.670	1.105	86.20	3.758	1	1.244	829.4	0.793	22.74	0.541
N Fl.	0.308	0.538	0.888	69.28	3.020	0.804	1	666.6	0.637	18.27	0.435
Lira	0.462	0.808	1.333	103.9	4.531	1.206	1.500	1000.	0.956	27.42	0.652
C$	0.484	0.845	1.395	108.8	4.741	1.262	1.570	1046	1	28.69	0.683
B Fr.	1.686	2.946	4.862	379.1	16.53	4.398	5.472	3648	3.486	100.	2.379
Ecu	0.709	1.238	2.043	159.3	6.945	1.848	2.300	1533	1.465	42.03	1

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Feb 21	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	10¼ - 10⅛	10⅝ - 10½	10⅝ - 10½	10⅝ - 10½	10⅝ - 10½	10⅝ - 10½
US Dollar	4⅛ - 4⅛	4⅛ - 4⅛	4⅛ - 4⅛	4⅛ - 4⅛	4⅛ - 4⅛	4⅛ - 4⅛
Can. Dollar	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 6⅞	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛
Dutch Guilder	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½
Swiss Franc	8 - 7¾	8 - 7¾	7⅞ - 7¾	7¾ - 7⅝	7⅝ - 7½	7⅝ - 7½
D-Mark	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½
French Franc	9⅞ - 9¾	9⅞ - 9¾	9⅞ - 9¾	10 - 9⅞	9⅞ - 9¾	9⅞ - 9¾
Italian Lira	12 - 10	12⅛ - 11⅞	12⅛ - 11⅞	12⅛ - 11⅞	12⅛ - 11⅞	12 - 11⅞

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

Feb 21	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Bank Bills (Buy)	-	-	10⅛	9⅞	9⅝	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	4.17	4.17	4.22	4.65
SDR Linked Dep. Offer	-	-	6⅝	6⅝	6⅝	6¾
SDR Linked Dep. Bid	-	-	6½	6½	6½	6½
ECU Linked Dep. Offer	-	-	10⅛	10⅛	10⅛	10
ECU Linked Dep. Bid	-	-	9⅞	9⅞	10	9⅞

Treasury Bills (sell): one-month 10 per cent; three months 9⅞ per cent; six months 9¾ per cent; Bank Bills (sell): one-month 10⅛ per cent; three months 9⅞ per cent; Treasury Bills; Average tender rate of discount 9.7678 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day January 31, 1992. Agreed rates for period Feb.26, 1992 to March 24, 1992, Scheme I: 11.75 p.c., Schemes II & III: 12.01 p.c. Reference rate for period Jan 1, 1992 to January 31, 1992, Scheme IV&V: 10.713 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 from February 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7 per cent; one-three months 9½ per cent; three-six months 9 per cent; six-nine months 9 per cent; nine-twelve months 9 per cent; Under £100,000 7 per cent from Sept. 5, 1991. Deposits withdrawn for cash 5 per cent.

CHICAGO

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Mar	Calls Apr	Calls May	Calls Jun	Puts Mar	Puts Apr	Puts May	Puts Jun
1.725	3.00	3.78	4.53	4.72	1.64	3.08	4.62	5.55
1.750	1.74	2.57	3.23	3.58	2.85	4.47	6.09	7.05
1.775	0.91	1.73	2.37	2.72	4.55	6.13	7.69	8.65
1.800	0.42	1.09	1.67	2.04	6.56	7.95	9.53	10.47
1.825	0.14	0.64	1.14	1.47	8.79	9.96	11.46	12.42
1.850	0.10	0.35	0.75	1.04	11.10	12.16	13.52	14.48
1.875	-	0.16	-	0.71	13.53	14.47	-	16.65

Previous day's open int. Calls 276,424 Puts 372,834 (All currencies)
Previous day's volume: Calls 24,844 Puts 26,184 (All currencies)

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

FINANCIAL TIMES STOCK INDICES

	Feb 21	Feb 20	Feb 19	Feb 18	Feb 17	Feb 14	1991/92 High	1991/92 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.21	88.37	88.29	88.47	88.26	88.06	88.47	82.17	127.4	49.18
Fixed Interest	101.21	101.40	101.58	101.52	101.23	101.03	101.56	90.59	105.4	50.53
Ordinary	1982.9	1989.4	1975.3	1983.7	1970.6	1950.9	2108.3	1606.3	2108.3	49.4
Gold Mines	130.8	136.8	135.8	135.9	139.0	141.1	222.8	127.0	734.7	43.5
FT Act All-Share	1219.36	1220.01	1216.45	1223.50	1216.04	1205.56	1284.07	987.46	1284.07	61.92
FT-SE 100	2542.3	2543.4	2536.7	2555.9	2541.0	2513.9	2679.6	2054.8	2679.6	986.9
FT-SE Eurotrack 100	1154.51	1149.62	1140.09	1143.83	1135.65	1130.76	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1182.66	1179.07	1172.55	1178.75	1170.10	1162.69	1198.60	938.62	1198.60	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 21 1992 US Dollar Index	% chg ($) since 31/12/91	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/91	Gross Div. Yield	THURSDAY FEBRUARY 20 1992 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991/92 High	1991/92 Low	Year ago (approx)
Australia (69)	144.98	-3.9	123.04	117.85	124.33	128.25	-2.9	4.31	146.02	123.67	118.66	125.04	128.44	160.31	112.74	131.34
Austria (20)	184.98	+11.1	156.98	150.49	158.64	158.86	+21.1	1.82	181.69	153.88	147.64	155.58	156.16	222.37	153.66	219.65
Belgium (46)	138.29	-4.2	117.36	112.50	118.59	115.78	+4.1	5.09	137.09	116.10	111.39	117.38	115.11	151.20	110.04	150.17
Canada (115)	134.68	-1.2	114.29	109.56	115.49	115.46	+1.2	3.19	134.36	113.80	109.17	115.04	115.24	144.28	126.49	137.40
Denmark (36)	248.22	-7.1	210.66	201.94	212.87	218.07	+0.7	1.66	248.00	210.04	201.53	212.36	215.79	273.94	217.74	269.31
Finland (15)	87.01	+11.5	73.84	70.79	74.62	82.57	+21.9	2.41	86.30	73.10	70.13	73.90	81.33	125.15	73.32	114.66
France (108)	153.39	+2.0	130.17	124.78	131.53	134.96	+10.4	3.29	152.78	129.40	124.14	130.81	134.21	164.70	119.11	147.32
Germany (65)	117.66	+0.3	99.85	95.74	100.90	100.90	+9.0	2.29	117.36	99.39	95.37	100.49	100.49	125.36	94.15	123.60
Hong Kong (55)	196.57	+11.5	166.82	159.91	168.58	195.69	+11.2	3.87	195.69	165.74	159.01	167.57	195.02	196.44	110.62	141.40
Ireland (16)	162.57	-3.1	137.96	132.25	139.41	141.79	+4.8	3.60	163.03	138.08	132.48	139.60	141.67	182.46	132.88	167.15
Italy (77)	75.03	-0.5	63.67	61.03	64.34	69.37	+7.3	3.34	74.66	63.23	60.66	63.93	68.87	88.20	64.76	87.35
Japan (473)	118.53	-12.7	100.59	96.43	101.66	96.43	-10.1	0.88	116.33	98.52	94.53	99.62	94.53	146.97	116.27	142.21
Malaysia (68)	249.56	+16.5	211.81	203.04	214.03	245.61	+10.9	2.67	250.18	211.89	203.29	214.22	249.35	250.18	189.18	230.23
Mexico (18)	1694.11	+21.8	1437.71	1378.22	1452.82	5668.82	+22.6	0.98	1669.03	1413.59	1356.23	1429.14	5584.88	1694.11	534.45	596.66
Netherland (31)	150.04	-1.7	127.33	122.06	128.67	127.17	+6.8	4.32	149.69	126.78	121.64	128.18	126.60	156.48	125.70	141.71
New Zealand (14)	46.12	-1.8	39.14	37.52	39.55	45.15	-2.2	6.09	45.69	38.69	37.13	39.12	44.75	54.64	41.18	47.26
Norway (24)	163.46	-8.6	138.72	132.98	140.18	143.61	-0.8	1.70	164.51	139.33	133.68	140.87	144.53	223.24	157.08	210.32
Singapore (38)	221.51	+0.8	187.99	180.21	189.96	167.77	+2.3	2.08	220.41	186.66	179.10	188.73	166.83	226.43	151.63	191.74
South Africa (61)	221.23	-11.1	187.75	179.97	189.71	177.46	+2.6	2.81	221.47	187.57	179.96	189.65	178.31	271.99	173.00	185.57
Spain (52)	153.75	-1.7	130.48	125.09	131.85	120.56	+5.2	4.69	156.29	132.37	127.01	133.83	121.96	171.12	131.51	166.11
Sweden (25)	174.67	-3.6	148.23	142.10	149.80	154.57	+4.0	2.91	173.09	146.60	140.65	148.21	153.04	204.12	146.60	183.54
Switzerland (59)	98.51	-1.9	83.60	80.14	84.49	91.18	+8.1	2.20	98.48	83.41	80.03	84.34	90.97	104.22	82.17	98.85
United Kingdom (233)	177.23	-4.4	150.41	144.17	151.98	150.41	+2.4	4.96	177.68	150.49	144.37	152.15	150.49	187.44	156.27	180.71
USA (523)	167.87	-1.2	142.46	136.57	143.97	167.87	-1.2	2.91	168.81	142.97	137.18	144.55	168.81	171.66	125.95	146.16
Europe (809)	144.51	-2.2	122.63	117.56	123.93	124.02	+5.6	3.90	144.50	122.39	117.42	123.74	123.79	151.52	125.50	148.53
Nordic (100)	173.80	-5.4	147.49	141.39	149.04	147.24	+2.3	2.18	173.18	146.67	140.72	148.29	146.64	200.81	155.55	192.50
Pacific Basin (717)	122.00	-11.0	103.54	99.25	104.65	100.32	-8.7	1.23	120.01	101.64	97.52	102.76	98.56	145.92	117.06	141.43
Euro-Pacific (1526)	131.27	-7.3	111.40	106.79	112.57	110.45	-2.8	2.40	130.07	110.16	105.69	111.37	109.27	147.66	121.29	144.69
North America (638)	165.76	-1.2	140.67	134.07	142.18	164.31	-1.1	2.93	166.65	141.13	135.41	142.70	165.17	169.69	125.01	147.41
Europe Ex. UK (576)	124.51	-0.5	105.66	101.31	106.80	108.60	+7.9	3.14	124.28	105.26	101.01	106.44	108.21	129.80	103.56	128.69
Pacific Ex. Japan (244)	156.29	+4.2	132.64	127.17	134.05	140.04	+4.0	3.62	156.39	132.46	127.10	133.93	139.81	156.39	111.40	131.40
World Ex. US (1720)	133.37	-7.0	113.19	108.51	114.38	112.66	-2.4	2.42	132.20	111.97	107.43	113.21	111.52	148.16	122.32	145.21
World Ex. UK (2010)	140.84	-4.8	119.52	114.58	120.79	127.59	-2.4	2.34	140.51	118.83	114.02	120.15	127.00	150.58	120.06	141.60
World Ex. So. Af. (2182)	143.53	-4.7	121.81	116.78	123.10	129.30	-2.0	2.61	143.07	121.18	116.27	122.52	128.78	153.09	122.92	144.77
World Ex. Japan (1770)	158.81	-1.3	134.77	129.21	136.21	148.77	+1.7	3.29	159.27	134.90	129.43	136.40	149.10	161.60	126.69	147.99
The World Index (2243)	144.01	-4.8	122.21	117.16	123.51	129.74	-1.9	2.61	143.56	121.59	116.66	122.93	129.22	153.70	123.28	145.07

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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Amendments to indices for 19/2/92 applied in Canada, related regional indices and the World Index.

BASE LENDING RATES

	%		%		%
Adam & Company	10.5	Credit Lyonnais	10.5	McDonnell Douglas Bank	10.5
Allied Trust Bank	10.5	Cyprus Popular Bk	10.5	Midland Bank	10.5
AIB Bank	10.5	Dunbar Bank PLC	10.5	Mount Banking	10.5
● Henry Ansbacher	10.5	Duncan Lawrie	10.5	NatWestminster	10.5
B & C Merchant Bank	10.5	Equatorial Bank plc	10.5	Northern Bank Ltd	10.5
Bank of Baroda	10.5	Exeter Bank Limited	11	Nykredit Mortgage Bank	11
Banco Bilbao Vizcaya	10.5	Financial & Gen. Bank	11	Provincial Bank PLC	14
Bank of Cyprus	10.5	First National Bank Plc.	14	Roxburghe Bank Ltd.	11.5
Bank of Ireland	10.5	● Robert Fleming & Co.	10.5	Royal Bk of Scotland	10.5
Bank of India	10.5	Robert Fraser & Ptnrs.	11	● Smith & Williamson Secs.	10.5
Bank of Scotland	10.5	Girobank	10.5	Standard Chartered	10.5
Banque Belge Ltd	10.5	● Guinness Mahon	10.5	TSB	10.5
Barclays Bank	10.5	● Hambros Bank	10.5	Unibank plc	10.5
Benchmark Bank	11	Hampshire Trust Plc	13.5	● United Bk of Kuwait	10.5
Brit Bk of Mid East	10.5	Heritable & Gen Inv Bnk	10.5	Unity Trust Bank Plc	10.5
● Brown Shipley	10.5	● Hill Samuel	10.5	Western Trust	10.5
CL Bank Nederland	10.5	C. Hoare & Co.	10.5	Westpac Bank Corp.	10.5
Citibank NA	10.5	Hongkong & Shanghai	10.5	Whiteaway Laidlaw	10.5
City Merchants Bank	10.5	Julian Hodge Bank	10.5	Yorkshire Bank	10.5
Clydesdale Bank	10.5	● Leopold Joseph & Sons	10.5		
Co-operative Bank	10.5	Lloyds Bank	10.5		
Coutts & Co	10.5	Meghraj Bank Ltd	10.5		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES– Gross: Contractual rate of interest payable not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. Compounded Annual Rate. Int Cr: Frequency at which interest is credited to the account.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	W'k's change	Div gross	Dividends paid	Last xd	City line
Abbott Labs		35⅝xd	–7	$1.20	FeMyAuNv	14.1	1503
♥Allegheny & W		329p	3.5	30c	–	–	–
Amdahl		1061pxd	0.9	10c	NvMrJeAu	31.1	–
Amer Cyanamid		35¼	2.9	$1.50	MrJeSeDe	27.2	–
Amer Express		12¾xd	–	$1.00	FeMyAuNv	30.12	1594
Amer T & T		21⅞xd	0.9	$1.32	FeMyAuNv	27.3	1597
Ameritech		35¼	1.8	$3.40	FeMyAuNv	28.1	–
BankAmerica		23½xd	2.8	$1.30	FeMySeDe	28.2	1744
Bankers NY		25⅞xd	1.8	$1.82	ApJyOcJa	27.12	1745
Bell Atlantic		25¼xd	0.5	$2.52	FeMyAuNv	4.7	–
BellSouth		27¼	–1.5	$2.76	FeMyAuNv	5.4	–
♥Bethlehem Steel		8⅞xd	8.7	–	MrJeSeDe	6.2	1827
Bowater		1476p	9.1	$1.20	OcJaApJy	8.6	1884
CPC		45⅝xd	–1.4	$2.20	JaApJyOc	27.12	2263
California Engy		695p	3.4	–	–	–	–
Campbell Soup h		22	–	76c	OcJaApJy	24.12	2050
Chase Manhattan		14⅞xd	9.7	$1.20	FeMyAuNv	24.1	2109
Chrysler		10¼xd	19.1	60c	ApJyOcDe	11.12	2135
Citicorp		9¾xd	9.9	–	–	23.10	2147
Colgate-Palm		20⅞xd	0.2	$1.06	FeMyAuNv	22.1	2164
Com'l Sarl		982p	11.4	60c	[illegible]	31.5	–
Dana		20⅝xd	8.9	$1.60	MrJeSeDe	25.11	2306
Data General		696p	8.4	–	–	–	–
Dial		28⅜xd	1.6	$1.40	JaApJyOc	28.5	2778
Dun & Brad		32	1.6	$2.15	MrJeSeDe	13.2	–
Eaton		40¼	5.5	$2.20	FeMyAuNv	2.2	2410
Echlin		9xd	1.4	70c	JaApJyOc	30.12	3046
FPL		19⅞xd	1.0	$2.40	MrJeSeDe	28.11	–
Fluor		25⅝xd	–	48c	JaApJyOc	18.12	2609
Ford Motor		22xd	10.7	$1.60	MrJeSeDe	30.1	2615
Gen Elect		46⅞xd	5.2	$2.20	JaApJyOc	4.12	2675
♥General Host		494p	–6.5	24c	–	18.12	–
Gillette		27⅝xd	–2.9	60c	MrJeSeDe	20.1	2695
Hasbro		21¼	–0.9	28c	JaApJyOc	1.8	–
Honeywell		42xd	–4	$1.65	MrJeSeDe	25.11	2919
Houston Inds		23¾	2.2	$2.96	MrJeSeDe	10.11	–
IBM		51¼xd	–	$4.84	MrJeSeDe	5.5	2966
Ingersoll-Rand		36¾xd	7.9	$1.72	MrJeSeDe	13.2	2979
Lockheed		25⅞xd	6.7	$2.08	MrJeSeDe	15.2	–
Lowe's		2478p	4.7	56c	JaApJyOc	11.7	–
Merrill Lynch		32⅝xd	–6	$1.00	FeMyAuNv	30.4	3351

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING AEROSPACE

ENGINEERING GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS - Cont.

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

PACKAGING, PAPER & PRINTING

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MEDIA

MERCHANT BANKS

OIL & GAS

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International.
- "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend includes a special payment: Cover does not apply to special payment. Z Minimum tender price. F Dividend based on prospectus or other official estimates for 1990-91. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1991. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1991-92. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service

Additions: Gaelic Resources (Section Oil & Gas), Property Trust (Property) and British Telecom New (partly-paid) (Telephone Networks)

Deletions: Hawker Siddeley (Electricals) and Anglo Scandinavian (Inv. Trusts)

London Share Prices

Real time share prices are available by calling FT Cityline on 0891 43 + the four digit code listed after the share price on this page. Calls charged at 36p/min cheap rate and 48p/ min at all other times.

4:00 pm prices February 21

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Ch'ge Close Prev.
29½	25	Barcls ADR	1.76	6.4	14	27	27½	27	27½	+½
34	26½	Bard (C R)	0.45	1.7	28	1174	28⅝	27⅞	28⅛	+¼
36¾	35	Barnes Grp	1.40	4.0	13	10	35⅜	35⅛	35¼	-¼
37½	32⅛	Barnett Bk	1.32	3.8	20	1326	35	34	34½	-1⅛
8	4⅞	Baroid	0.20	3.4	17	1007	6⅜	5⅝	6⅝	+⅛
8½	7	Battle Mt	0.10	1.2	85	74154	8⅜	8¼	8⅜	
60¾	48½	Bausch Lmb	0.72	1.4	36	2065	52½	51⅛	51⅛	
50½	45⅛	Baxter Pf	3.15	6.2		1234	u50½	50⅜	50½	+⅛
40½	32⅛	Baxter	0.86	2.4	17	6483	35⅝	35	35⅛	-⅛
24⅛	21⅞	Bay St Gas x	1.34	5.7	16	39	24	23½	23⅝	-⅛
23⅞	21⅞	Bk Tr 1836	1.83	8.0		102	22⅞	22½	22⅞	
20⅜	18⅝	Bear Strns x	0.60	3.1	8	2155	19⅝	19¼	19½	
45⅞	43⅞	BearStPfA	3.13	7.0		2	44⅞	44⅞	45	+⅛

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
40⅞	33½	Russell Cp	0.32	0.8	27	303	37½	37⅛	37⅛	+¼
25⅛	19½	Ryder Syst	0.60	2.4	29	1607	u25⅛	24⅞	24⅞	-⅛
28	22¼	Ryland Grp	0.60	2.2	23	401	27¼	27⅛	27⅝	+¼

- S -

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
21	17½	S Anita Rt	1.36	7.1	17	37	19½	19⅛	19⅛	-⅛
18⅞	15¼	SCOR US Co	0.24	1.3	10	2	17⅞	17⅞	17⅞	
29½	24¾	SPS Techno	1.28	4.4	22	91	28⅞	28½	29¼	+½
13	12⅛	Sabine Rt x	1.31	10.4	7	29	12⅝	12½	12⅝	
11⅞	9½	Safecard	0.15	1.4	10	308	10⅞	10¼	10⅞	+⅛
16	14⅛	Saleg'd Sc			8	24	15⅜	15	15¼	+¼
28¾	25⅛	SafetyKln	0.34	1.3	29	1626	26⅞	26½	26⅝	+½
20½	16⅞	Safeway			39	478	18¼	17½	17⅞	+⅛
4⅝	3⅛	SafewayWts				135	3⅞	3¾	3⅞	+⅛
36¾	29⅞	StJoePaper	0.20	0.6	48	89	u36½	35¼	36	+⅛
34¾	32⅛	StJosL&P	1.72	5.2	13	9	33¼	33⅛	33⅛	
75¾	69½	St Paul's	2.72	3.8	7	761	72¼	72	72	-1
7⅞	2⅞	Salant Crp			8	14	5⅝	5½	5⅝	
75⅞	61½	Sallie Mae x	1.20	1.8	17	6435	67	65⅞	65⅝	+1⅛
14¾	13⅜	Salomon Br	1.61	11.4		455	14⅛	14	14⅛	+⅛
32½	28⅞	SalomonInc	0.64	2.1		73899	31	30⅛	30⅞	-⅛
45⅝	42⅞	SanDgo G&E	2.80	6.5	12	634	43½	43	43¼	-⅛
3⅜	2⅞	SantaFeEDu	0.40	12.8	26	38	3¼	3⅛	3⅛	
9⅝	7	SantaFeEPs	0.16	2.0	29	1407	8½	8¼	8⅛	-¼
36⅝	30	SantaFePac	2.76	8.2	10	68	33⅝	33¼	33½	-⅛
14⅛	11½	SantaFeSth				213067	11⅝	11⅝	11⅝	-⅛
57	48¼	Sara Lee	1.00	1.9	17	4380	52½	51¼	51⅝	
9½	1⅛	Savin				158	6	5⅝	5⅝	-⅛

- X - Y - Z -

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
82¼	66½	Xerox	3.00	3.8	15	20042	78⅛	77⅞	78¼	-⅛
53½	50½	Xerox4.125				3	52½	52½	52	-½
27½	24⅞	Xtra 1.94	1.94	7.3		70	26⅝	25⅝	26⅝	-⅛
34¾	28½	Xtra Corp	0.80	2.4	14	177	33	32⅝	33	
27	25¼	Yankee Egy	1.60	6.0	15	10	26⅞	26⅝	26⅝	-⅛
1⅞	½	Zapata			25	140	1⅛	1	1⅛	+⅛
11⅞	7¼	ZenithElec				51222	10⅞	9⅞	9⅞	-½
16⅞	15	Zenith Nat	1.00	6.7	8	2100	15	d15	15	
6⅜	6	Zenix Inc x	0.84	12.9		160	u6⅝	6½	6½	
13⅝	11⅛	Zero Corp	0.40	2.9	20	326	u13⅝	13⅜	13⅝	+⅛
38	34¼	Zurn Ind	0.88	2.4	16	557	36½	36	36¼	+⅛
14⅛	13¼	Zweig Fund	1.16	8.7		219	13½	d13¼	13⅜	-⅛
11	10	Zweig Tot x	0.86	9.7		2028	10⅛	d9⅞	9⅞	-⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices February 21

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
Oilgear x	0.24	30	651	26⅝	26	26⅝	+¼
OSI Corp	0.14	7	319	6⅝	d6⅛	6⅛	-⅛
Pall Corp	0.38	32	845	30½	28½	28⅝	-1⅛
Pegasus G	0.10	8	1230	13⅞	13	13¼	-⅞
Perini		49	6	13⅞	13¼	13⅝	
Pet H&P	0.31	6	50	10⅝	d9⅞	10⅛	-⅛

NASDAQ NATIONAL MARKET

4:00 pm prices February 21

- X - Y - Z -

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
Xilinx		31	2622	30¼	29½	29¾	-½
Xoma Corp		13	3734	23¼	22¾	22⅞	+⅛
Yellow Fr	0.94	33	2014	u32⅞	32	32	-¼
York Rsch		48	5215	6½	d5⅛	5⅞	-½
ZionsUtah	1.44	9	488	47⅞	47	47½	

MONDAY PROFILE

Whitehall's youngest mandarin

Peter Marsh on the rise of Sir Terry Burns, permanent secretary at the UK Treasury

He has earned the nickname of Teflon Terry

Ahead of next month's Budget, Mr Norman Lamont is not the only person feeling the pressure. While the chancellor will make the important decisions, he will rely heavily for advice on Sir Terry Burns, permanent secretary at the Treasury and the great survivor of UK economic policymaking over the past decade.

The soccer-loving Sir Terry has been a leading influence on four chancellors since his appointment as the Treasury's chief economic adviser in 1980 by Mrs Margaret Thatcher, then prime minister. He was promoted to the top Treasury job last April.

Views differ over his record. Some see him as the Mr Fixit of the government's economic service, who, through his pragmatic approach and presentational skills, helped lay the ground for a string of election victories for the Tories. Indeed, he has been so closely involved with the Conservative government that some have criticised him for abandoning the traditional non-partisan approach of the civil service.

Others say Sir Terry made crucial mistakes in judging the direction of the economy. According to critics, the errors included the failure first to foresee the 1986-88 economic boom, and then to choke it off quickly enough, through monetary or fiscal tightening.

The long period of high interest rates which were eventually brought in to dampen the demand explosion almost certainly exacerbated the current recession – the longest since the second world war.

Some of the forecasting mistakes seem large – even allowing for the difficulties of economic management and that many of the errors were shared by non-government economists. In November 1987, for instance, the Treasury predicted a 1988 current account deficit of £3.5bn; it turned out 342 per cent higher at £15.5bn.

The Treasury's mistakes around that time were based on an *underestimate* of demand and inflationary pressures. But at the start of the recession, it misread the economy in precisely the opposite direction. Thus in November 1990, the Treasury said gross domestic product in 1991 would grow by a modest 0.5 per cent. In the event, as figures last week showed, output slumped by a steep 2.5 per cent, the biggest annual drop since the 1930s.

Viewed in terms of the economic developments of the past five years, Sir Terry's record looks less than impressive. But in the debate about what went wrong, he has emerged largely unscathed. Among the less reverent, he is called Teflon Terry.

This is not a sobriquet which would appeal to Mr Lamont, who is thought to have a good relationship with his senior official. The chancellor will find Sir Terry's skills invaluable in packaging the March 10 Budget, which is expected to unveil tax cuts that could cheer voters up in time for the general election.

But one former Treasury official – with good political connections – is negative about Sir Terry. He says: "Choosing Terry as permanent secretary may have been a mistake. The things he's good at – macroeconomics and forecasting – are the things that have gone wrong in the past five years. The questions for the 1990s are in microeconomic areas like training, education and public services, where he lacks expertise."

As the recession has dragged on, Sir Terry has undoubtedly been feeling the heat. Lord Croham, who worked as Treasury permanent secretary in the 1970s, says: "I'm sure Sir Terry feels responsible [for some of the problems of the UK economy], but not enough to push him out of his stride."

Indeed, Sir Terry has in recent months been looking his normal sprightly self – and has told friends he is enjoying his new job. As well as being resilient, Sir Terry is adaptable. Mr Geoffrey Dicks, head of economic forecasting at the London Business School, where Sir Terry once worked, says: "He's the ultimate insider. Give him the clothes and he'll play the part."

This is despite the fact that in many ways Sir Terry is the antithesis of the traditional, smooth-talking Treasury mandarin. With a working-class background in the industrial north-east and a Geordie accent, Sir Terry is one of only five of the 23 people at permanent-secretary level in the government who did not attend Oxford or Cambridge. At 47, he is also the youngest.

On several occasions, Sir Terry has demonstrated flexibility on economic principles. While working in the 1970s as an economist at the LBS – which he joined after an economics degree at Manchester University – Sir Terry followed an approach to the economy based on the then-dominant Keynesian orthodoxy of managing demand through fiscal and monetary tuning. Later in the 1970s, he caught Mrs Thatcher's attention because of his move to a monetarist approach – which emphasised the control of inflation by limiting monetary growth.

In the early 1980s, when this policy did not seem to be the answer to Britain's problems, Sir Terry switched to support for the semi-fixed exchange rates of the European exchange rate mechanism (ERM). He was a leading influence backing ERM entry in October 1990, a step that at one time he had opposed because of the rigidities it would impose on monetary policies.

Sir Terry also has a gift for presentation. He lent his name, for example, to the so-called Burns doctrine – according to which the balance of payments is a problem for government, only if the public sector is borrowing. Otherwise it is a problem for the private sector. Sir Terry is also believed to have formulated the argument that many of the Treasury's forecasting mistakes of recent years can be laid at the door of faulty statistics – sharing the responsibility with government statisticians.

Some go so far as to say that, under Sir Terry, the Treasury's 100-strong economics unit has become less a dispassionate provider of economic analysis as an uncritical cheer-leader for government policies. One former colleague says: "By tarring [the economic service] with a Tory brush, he's brought it into disrepute." By this he means that the unit has not done enough to ask questions about underlying trends in the economy – such as persistent current account deficits and the impact of financial deregulation in the early 1980s in boosting inflation – where the answers might have jarred with ministers' overall *laisser-faire* approach.

Perhaps the key quality about Sir Terry is his management skills, and ability to get on with people. Inside the Treasury he is given credit for an ability to push through decisions and to link up well with other parts of Whitehall. The unpretentious side to his nature is apparent in his support since the 1960s for Queen's Park Rangers, the London soccer club. Mr Richard Thompson, QPR's chairman, says Sir Terry is "down-to-earth and intelligent".

In spite of Sir Terry's charm, a view has gained ground recently among some Tory MPs and industrialists that Treasury officials have escaped lightly in the debate about the inadequacies of economic policies in recent years. According to this view, Mr Nigel Lawson (chancellor between 1983 and 1989) has taken too much of the responsibility for the errors. One former Bank of England official says: "I don't see why chancellors should carry the can for poor advice from their officials."

Sir Douglas Hague, a former economic adviser to Mrs Thatcher, says he brought to Sir Terry's attention early in the 1986-88 boom the rising house prices that he felt could trigger a surge in inflation. "I don't think Terry was wary enough (about inflationary pressures) early enough," he says. A senior industrialist adds that last year he told Sir Terry that Britain was facing not just a mild recession but a serious one. "He didn't listen."

Many outside economists find it difficult to square the Treasury's inaccurate forecasting in recent years with Sir Terry's good record at the LBS and in his early days as economic adviser to the Treasury. At the LBS, says one former co-worker, Sir Terry often worked into the small hours, twiddling his computer equations to get predictions that "felt" right. This person says Sir Terry has lost much of his zeal for accuracy by working too long in the public sector.

An intriguing question concerns Sir Terry's future if Labour forms the next government. The official view from Labour is that it would be happy to work with Sir Terry. But some Labour sympathisers – such as Mr Neil MacKinnon, chief European economist at Yamaichi, the Japanese securities house – think Sir Terry is too closely identified with Tory policies to remain in office if Labour won the election. Should this happen – and bearing in mind the different approach that Labour would take to policy areas such as industrial policy and training where the Treasury has a vital say – Sir Terry might once more be called on to make a switch in direction.

PERSONAL FILE

1944 Born March 13. Educated Houghton-Le-Spring Grammar School, then Manchester University.
1965 Researcher at London Business School.
1970 Lecturer in economics, LBS.
1976 Head of centre for economic forecasting, LBS.
1980 Chief economic adviser to Treasury and head of government economic service.
1991 Treasury permanent secretary.

The power behind Greenspan's throne

MICHAEL PROWSE on America

Mr David Mullins seems in his element as vice-chairman of the Federal Reserve. Although sworn in as Mr Alan Greenspan's deputy only last July, he is already emerging as a power behind the throne.

"He is well organised intellectually and as influential as any vice-chairman of the past two decades," says Mr David Hale, chief economist at Kemper Financial Services in Chicago.

"He has charged out of the starting blocks," says Mr David Jones, a Fed watcher at Aubrey Lanston, the Wall Street brokerage. "He is a rising star: he does his homework, works well with people and is persuasive at board meetings."

Mr Jones credits Mr Mullins with having played an important role in securing last December's aggressive one-point cut in the discount rate – possibly the Fed's most important monetary decision in recent years. Up to that point, the Fed had favoured a gradualist approach, involving frequent, small rate cuts.

The bold December move lifted gloom in financial markets and prompted an economically beneficial decline in long bond yields.

At 45, Mr Mullins has enjoyed a meteoric rise. Five years ago he was a finance professor at the Harvard Business School with no plans for public service. In 1987, Mr Nicholas Brady, the Treasury secretary, asked him to serve on the official committee investigating the stock market crash. In 1988 he joined the Treasury as an assistant secretary and helped mastermind the bail-out of bankrupt savings and loan (S&L) institutions. He moved to the Fed as a governor less than two years ago.

In conversation, Mr Mullins displays a lively mind. Analytical by nature, he provides neatly structured answers to questions.Indeed, in a town where many political appointees have only a hazy grasp of their briefs, he reminds one of the European mandarin class of civil servant.

Fed vice-chairmen, like US vice-presidents, have often enjoyed only symbolic power.

The articulate Mr Mullins is well positioned to wield influence, partly because the composition of the seven-member Fed board has changed markedly. In November and December, two new Bush appointees – Mr Lawrence Lindsey and Ms Susan Phillips – were sworn in as governors. Mr Lindsey, a former White House aide, is a well-known "supply-sider". Both new governors are regarded as "pro growth".

Mr Mullins says there has been a "subtle change" in the Fed's objectives. "Our primary goal is to maximise growth," he says. "Price stability is a means to that goal." He contrasts this with the view of some previous governors who saw price stability as an ultimate objective. He also draws attention to the political costs of trying to achieve price stability too quickly. If the Fed consistently pursued excessively tight policies, it would risk losing its independence on monetary matters.

But Mr Mullins is anxious not to be cast as soft on inflation. He says the way to maximise growth is by reducing inflation to "*de minimis* levels". If the US could restore the inflation levels of the 1950s, interest rates could stay low permanently, providing a spur to investment. He also regards low inflation as the best route to stable exchange rates and hence as a way to encourage trade flows.

On the economy, he cautions against excessive optimism about an imminent recovery. In spite of recent interest rate cuts, the public mood remains sour and the economy extremely sluggish. The Fed stands ready to ease again if growth does not materialise.

He regards the recession that began in July 1990 as "pretty much over", in spite of recent falls in employment and production. But the painful process of "wringing out the imbalances of the 1980s" may continue for several more quarters. If it proved necessary to reduce debt ratios to the levels of the early 1980s before households and companies felt free to spend, the recovery could take longer to arrive than widely envisaged.

"The upturn may start in the second quarter but it is likely to be mid-year before we get a growth rate of 2 to 3 per cent," he says. And that, he fears, may not be fast enough to convince people that a recovery really is under way.

He says the Fed can do nothing about the biggest long-term drag on growth: the prospect of another decade of huge budget deficits. The best evidence of deteriorating fiscal trends is the rise in the "operating deficit" – the federal deficit minus debt interest and extraordinary items such as the cost of the S & L ball-out. This has risen by $120bn in the past year.

The US, he says, "must go back to the drawing board" and find a better way of controlling federal deficits. But he is not hopeful of progress. This year's fight over tax cuts will exhaust patience on Capitol Hill and lessen the chance of a comprehensive attack on the deficit in 1993 – the first year of a new presidency and thus the best opportunity for fiscal restraint.

Mr Mullins's rapid rise has sparked speculation that he could be a future candidate for Treasury secretary. He discourages the idea. He is a "problem solver" who has "never had much ambition for the public spotlight". The Fed, with its 200 economists, provides an agreeable setting for an ex-academic, comparable with that of a "world-class university".

"I'm very happy here," he says with a smile. "It's a setting where you can do real analytical research yet also have a real policy impact." Perhaps his ambitious eye is set on the Fed chairmanship when Mr Greenspan's term expires.

How to avoid trial by ordeal

JUSTINIAN

The length of the Blue Arrow and Guinness trials, completed or abandoned in recent weeks, has highlighted the difficulties of trying complex frauds by jury.

There is a radical solution, but it will not be found within the criminal justice system as we know it, or within whatever the Royal Commission on Criminal Justice is likely to devise for the future. The iron equation of crime and punishment must be abandoned for most frauds (the straightforward theft as in Barlow Clowes could safely be left to criminal justice) and replaced with an investigation of fraudulent conduct by a public inquiry, together with steps to eradicate the conditions that fostered the fraudster's art.

Fraud cases take a long time coming to trial, because the process of garnering and ordering the mass of documentary material and taking statements from witnesses is time-consuming. The accused's anxieties, induced by the delay, are comparatively tolerable.

Trial by ordeal is not tolerable. In former times guilt or innocence was left to supernatural decision. Nowadays the ordeal is a protracted court proceeding, with the verdict in the hands of those uninitiated in the financial world's ways.

The worst example of the marathon fraud trial has just ended in Nottingham Crown Court. In September 1990 four persons accused of a medium-scale fraud went on trial. Two hundred and fifty days later, at a cost of more than £3m, they were convicted. The main defendant was sentenced to four years' imprisonment, a considerable discount having been given, no doubt, for the time that the threat of imprisonment hung over him.

The apparent leniency of suspended sentences on the Blue Arrow defendants was due as much to the length of the trial as to the reduced criminality of the convicted. Financial ruin and ill-health are also powerful factors for displacing imprisonment. Mr Ernest Saunders, convicted in August in the first Guinness trial, suffered from pre-senile dementia, prompting a reduction in sentence on appeal. In the second Guinness trial Mr Roger Seelig was stretched beyond the limits of endurance.

Mr Justice Henry, who tried the Guinness cases, has rightly called for radical reform, "not just a tinkering of the process". The Royal Commission on Criminal Justice will no doubt heed his words, but because realistically the body politic will not countenance the abolition of trial by jury, it is hard to see how criminal justice can cope. Jury trial will always take much longer than a professional tribunal.

A "radical solution" was proposed in 1986, at the very moment the Guinness fraud was exposed. Lord Roskill, a retired law lord, proposed an alternative tribunal, composed of a High Court judge and two assessors with expertise in business and finance to try complex fraud cases. The trial by jury lobby prevailed upon government to reject such a sensible solution.

As Jonathan Caplan QC, chairman of the Bar's public affairs committee, said: "Before we actually get rid of jury trial in a certain category of cases, we should want to be convinced that there is no satisfactory way to maintain the *status quo*." Neither the *status quo*, nor the *status quo ante* can provide a satisfactory way. If a trial for serious crime must be by one's peers, then we must look elsewhere for a solution than in criminal justice.

The main purpose of criminal justice is to satisfy society that an offender has been proved guilty in order to legitimise punishment, with imprisonment as the ultimate sanction. The procedural safeguards must be stringent, to avoid unfairness in the trial process and to reduce the risk of wrongful conviction.

The potential loss of liberty a criminal faces is a powerful incentive to all those administering criminal justice to ensure that the highest standards are met. There is a heavy price to be paid, however, in lengthy trials and huge cost to the public purse.

The law must constantly adapt its procedure to meet new challenges to social equilibrium. The Financial Services Act 1986, which implemented many of Lord Roskill's recommendations about handling fraud cases, has probably done most to stem the tide of some fraudulent activities. Clever fraudsters will, however, continue to find new loopholes.

If the prime purpose of the law is both to expose and prevent fraud, there should be a new form of justice, in which society will have to forgo the power of imprisonment. Instead of jury trials, there must be a public inquiry which will investigate all circumstances of a fraudulent enterprise so that the truth – and not just the unreasoned verdict of an ill-equipped jury – may be paraded before the public in the form of a full report.

Miscreants would be named in a final report by the committee of inquiry, and their wrongdoings recorded. The committee would have the power to order any person found at fault to pay the costs of the inquiry, reasonably proportioned to the defaulter's part in the fraud. Other administrative penalties – such as disqualification from company directorships, disciplinary actions by professional bodies, disqualification from voting and removal of honours – could form part of the system. In addition, the persons committing the fraud would remain liable to actions in the civil courts.

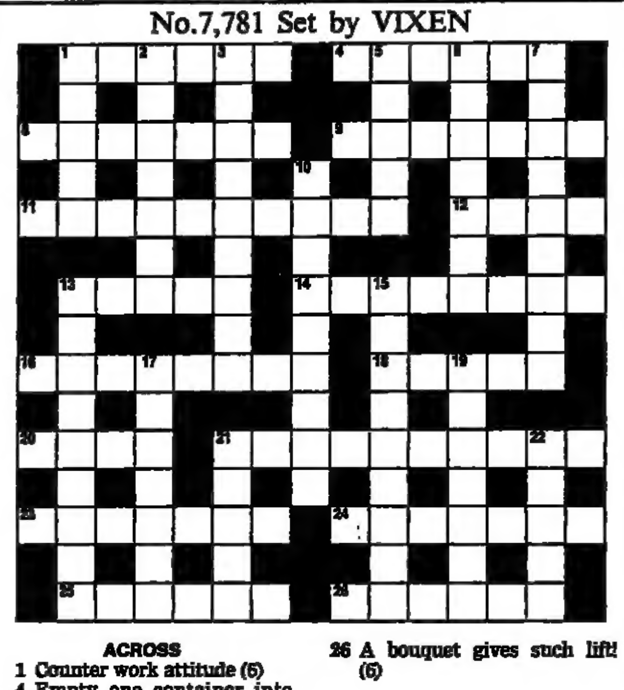
The perpetrators of institutional fraud would have more to fear from these measures than from a short spell in an open prison, followed by the opportunity to re-establish themselves without apparent commercial ill effects.

If it is objected that fraud should be treated no differently from murder, it is well to note that fraudsters are more likely to destabilise society than are dangerous gangsters. Criminal justice cannot protect the modern democratic society against the fraudster. An alternative system of administrative justice must replace it.

Louis Blom-Cooper QC

CROSSWORD

No.7,781 Set by VIXEN



ACROSS

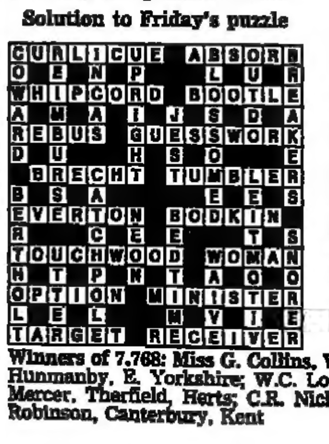
1 Counter work attitude (5)
4 Empty one container into another (6)
8 The office girl one takes on (7)
9 A meal is possibly responsible for such sickness (7)
11 Settled for a name popular indeed! (10)
12 Some were a little reluctant to hold foreign money at one time (4)
13 A thousand in gold? That's of no great importance (5)
14 Servicemen arm for recall (8)
16 Subversive article about framing a rich eccentric (8)
18 Provide medical attention, something quite special (5)
20 Supports the sovereign for example – the head of state (4)
21 A high-principled man had trouble with senior Dutch governor (10)
23 The former decay (7)
24 A way career can go the wrong way for marine (4-3)
25 Changes as the afternoon begins (6)
26 A bouquet gives such lift! (5)

DOWN

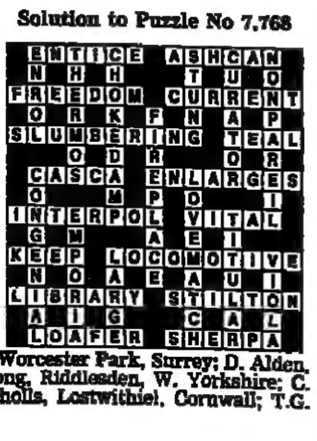
1 The woman with nothing turned nasty (5)
2 Getting cash back on a horse (7)
3 Owls hatched early in the year make only gradual progress (4,5)
5 Gift for which there's a charge! (5)
6 A couple of animals that present a problem (7)
7 An examination people enter at will (9)
10 Honour is involved in appeal for a ballet performance (9)
13 State it's no mean break (9)
15 Incomparable suit got with 13 across (9)
17 The intention is to separate (7)
19 The City's above the making of piles from hide (7)
21 In haste Edwin saddled his mount (5)
22 A number engaged in tree-climbing for exercise (5)

As the result of a production error, Saturday's puzzle omitted the prize puzzle information. The usual prizes will be awarded. Solutions by Wednesday March 4, marked Crossword 7,785 on the envelope, to the Financial Times, Number One Southwark Bridge, London SE1 9HL. Solution on Saturday March 7. The solutions and winners' names that should have appeared on Saturday are printed below.

Solution to Friday's puzzle



Solution to Puzzle No 7,768



Winners of 7,768: Miss G. Collins, Worcester Park, Surrey; D. Alden, Hunmanby, E. Yorkshire; W.C. Long, Riddlesden, W. Yorkshire; C. Mercer, Therfield, Herts; C.R. Nicholls, Lostwithiel, Cornwall; T.G. Robinson, Canterbury, Kent

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

[illegible]

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, correct to two decimal places. [illegible] Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

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